

MANITOBA POOL ELEVATORS

BRIEF
to Royal Commission on
Co-operatives

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APRIL 1945

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VERBATIM REPORT OF THE SUBMISSION PRESENTED
TO THE ROYAL COMMISSION ON THE TAXATION
OF CO-OPERATIVES AND THE EXAMINATION OF
W. J. PARKER, PRESIDENT

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CONTENTS

Local Co-operative Elevator Associations and
Manitoba Pool Elevators

W. J. Parker, President, Manitoba Pool Elevators

	Page in Official Report
Examined by Mr. Scarth (brief 7009).....	7008
Mr. Fillmore	7054
Mr. Scarth	7112
Mr. E. T. Parker, K.C., Counsel to Commission	7117

ROYAL COMMISSION ON COOPERATIVES

The Commission appointed to inquire into the present position of cooperatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Ottawa, on Thursday, April 26, 1945.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman.

B. N. ARNASON

G. A. ELLIOTT

J. M. NADEAU

J. J. VAUGHAN

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Eugene T. Parker, K.C. Counsel

Roger Brossard Associate Counsel

Major H. D. Woods

J. A. Chapdelaine

} Associate Registrars

Colonel G. W. Ross

Executive Secretary

Ottawa, Thursday, April 26, 1945.

The Commission met at 10 a.m., Mr. Justice McDougall presiding.

MR. PARKER: I think we will proceed with the Manitoba brief this morning. Mr. Porter, it will be recalled, kept his case open, so to speak, but he advises me that he has nothing further to say, and unless some other counsel has any questions to ask, we will regard the case as closed and go on to Manitoba.

Submission of 180 Local Co-operative Elevator Associations and Manitoba Pool Elevators

MR. SCARTH: As you will remember, Mr. Chairman, in Winnipeg we presented four briefs by local associations in the country, namely Carey, Decker, Sperling and Arborg. They were four local associations of Manitoba Pool Elevators, and their submissions were made individually. This morning we are presenting a collective brief on behalf of 180 local co-operative elevator associations and Manitoba Pool Elevators. I will ask Mr. Parker to take the stand.

W. J. PARKER, President, Manitoba Pool Elevators,
having been duly sworn testified as follows:

BY MR. SCARTH:

Q. You are president of Manitoba Pool Elevators? A. Yes.

Q. Since when? A. December 1940.

Q. And you have been a director for how many years?
A. Since 1930.

Q. Prior to that time you were active in the local elevator association of Sanford for many years? A. Yes, from the time of its organization.

Q. And you have been a farmer and producer down in that district? A. I am yet.

MR. E. T. PARKER: How was the brief prepared?

MR. SCARTH: This brief was prepared by you, Mr. Parker, and has been approved by your board of directors?

THE WITNESS: Yes; that is correct. It was prepared by myself in consultation with you and the auditor and in the course of its preparation it was submitted to the board. When it was finalized it was submitted to the board and formally approved. Before I start to read the brief, Mr. Chairman, I would make one observation with your permission. This brief has been prepared in some detail and, I think, with absolute frankness — in more detail than is necessary to give you a clear picture of how the organization operates and what it has done. The board approves of the detail and frankness on the assumption, and in the confident belief, that before your Commission will draw any comparisons you will get as frank a statement from private and public companies operating in the same field.

MR. E. T. PARKER: You might advise the Commission how many of the officials of the 180 local associations have seen the brief.

THE WITNESS: None of them. Well, when I say none, I mean officially. Some have read the brief but I cannot say officially that each one of the 180 has had a copy yet.

MR. SCARTH: Will you be good enough to read the brief?

THE WITNESS: It reads:

Origin of the Grain Cooperative Movement in Manitoba

"1. The organization of the grain trade in western Canada dates from the late years of the nineteenth century; trading in futures began in 1903. In those early years the grain growers complained bitterly of the abuses in the trade, and in 1899 the dominion government appointed a royal commission to investigate the complaints of the farmers. The outcome was 'The Manitoba Grain Act' passed in 1900, which remedied a number of the grievances but the farmers were not satisfied. They organized a grain growers association to insure the protection given them by the law, and later began to study proposals to set up a grain marketing company. This movement resulted in the formation of the Grain Growers Company in Manitoba in 1906, but the young company ran into serious trouble right at the start. Among its objects was the distribution of its savings by way of patronage dividends. The Winnipeg Grain Exchange, which the company had joined, declared this to be a violation of the rules of the exchange and thereupon suspended the company from membership. This was a prelude to a struggle in which the provincial government finally took a hand in support of the company. Ultimately, however, the company abandoned the proposal to include the payment of patronage dividends under its constitution, and was thereupon reinstated to membership in the exchange.

"2. The farmers of the western provinces then turned to their governments for assistance. They demanded a system of government owned and operated elevators. As a result in 1909 the Manitoba government under Premier Roblin, announced a policy of establishing and operating a line of elevators as a public utility. This announcement was received with wild enthusiasm by the farmers.

"3. By the end of 1910 the government had purchased and built 173 elevators. It did not purchase grain but merely took it into store to enable the farmers to ship it out in carload lots.

"4. At a number of points the Grain Growers Company put buyers in the elevators at the request of the local farmers, and bought grain in competition with the elevator companies.

"5. The elevator companies made strenuous efforts to retain their business. They paid higher than the current market prices at these points, thereby giving to the farmers their first experience in real competitive buying.

"6. After operating the facilities for two years at a loss, the government leased the elevators to the Grain Growers Company, and then finally disposed of them.

"7. During the first world war the farmers had their first experience of collective marketing of wheat under an arrangement between the British and Canadian governments, with the distribution of the crops of 1917 and 1918 in the control of a specially created board of grain supervisors. The crop of 1919-20 was sold by the first Canadian Wheat Board. The latter system found great favour with the grain growers and when the government decided to abandon it, the farmers' organizations strongly protested and made vigorous but unsuccessful efforts to have it re-established during the years 1920-23.

"8. Disappointed in this effort and convinced of the value to them of organized cooperative marketing with a central selling agency, the farmers turned their attention to the organization of a contract wheat pool in each of the three prairie provinces with a central selling agency for all three. The contract in each pool provided for a deduction from the grain handled to form a fund for the building or purchasing of grain handling facilities. In the case of Manitoba, the wheat pool was incorporated under the name of 'Manitoba Co-operative Wheat Producers Limited' by Chapter 130 of the statutes of Manitoba 1924, hereinafter called the 'Manitoba Pool'. The following year 'Manitoba Pool Elevators Limited' was incorporated by Chapter 113 of the statutes of Manitoba 1925, hereinafter called 'The Elevators Company', its primary objects as stated in the Act being:

'To erect, construct and acquire facilities for handling grain for Manitoba Co-operative Wheat Producers Limited and its members.'

"9. Between the years 1924 and 1931, the Elevators Company out of moneys supplied by the wheat pool, constructed or acquired 152 country elevators throughout Manitoba, and at each point where an elevator was acquired a local co-operative elevator association, hereinafter called the 'Association', had been organized by a voluntary effort, (details of the organization, capital structure and operation of the associations and the Elevators Company being more particularly set forth later in the brief). The elevators were leased to the associations by the Elevators Company with an option to purchase.

"10. The three western wheat pools unfortunately became some of the first victims of the great financial crisis of 1929-30 because of the unprecedented and precipitous decline in grain prices. They had paid out to their members approximately \$23,000,000 more than could be recovered from the sale of grain. In these circumstances the governments of Manitoba, Saskatchewan and Alberta came to the aid of the western wheat pools in their respective provinces, by guaranteeing to the banks to whom they were indebted, repayment of the moneys borrowed (for text of guarantee see Schedule "A" to Chapter 57, statutes of Manitoba 1931). As security for the said guarantee, it was provided by Section 9 of the Act that the province should have a first lien and charge in priority to all other liens, charges or encumbrances whatsoever upon all the assets, real and personal of the Manitoba Pool and the Elevators Company. In Manitoba the liability incurred to the government under the guarantee was approximately \$3,400,000. The only realizable asset of the Manitoba Pool was the amount payable by the associations under their leases and options from the Elevators Company in the sum of \$2,400,000. The government under its lien took over the entire assets including the country elevator system and the Manitoba Pool was later forced into bankruptcy.

"11. By agreement dated the 1st day of August, 1931, and made between the various associations, pool elevators, the Manitoba Pool and the government of Manitoba (for copy of agreement see Schedule "A" to Cap. 52, S.M. 1932), it was agreed that the leases and options granted by the Elevators Company to the associations should be cancelled, and that the various associations should purchase from the Elevators Company their grain elevators for an aggregate purchase price of \$2,100,000, such purchase moneys with interest thereon to be collected by the Elevators Company from the associations and to be held in trust by the Elevators Company for the government, and to be paid over to it on demand. It was further provided that the government would accept the amounts payable by the various associations under the agreement, amounting in the aggregate to \$2,100,000 with interest thereon from August 1st, 1931, in full satisfaction of its claim against the Manitoba Pool and the Elevators Company. It will be noted that by Section 3 of the said agreement, it was agreed between each of the associations and the Elevators Company as follows:

'Elevators Company will superintend and manage association's elevator for twenty years.

(a) The Elevators Company will, from the 1st day of August, 1931, to the 31st day of July, 1951, superintend and manage for the association the operation of the association's country elevator cooperating with the board of directors of the association to as great an extent as possible to insure the efficient and successful operation of the business of the association, the general manager for the time being of the Elevators Company to be also the general manager of the association.

'Elevators Company will provide facilities for marketing, financing, handling and storing grain.

(b) The Elevators Company will establish and maintain the necessary facilities to carry out its obligations hereunder, including facilities for marketing the grain handled by the association other than pooled grain and for hedging and selling the same and will, so far as it can arrange to do so, finance the association and the marketing and handling of its grain, including making provision for terminal storage of the grain handled by the association. The Elevators Company will do the banking of the association and handle all the funds of the association in the name of the Elevators Company as heretofore.

'Association will pay Elevators Company its proportionate share of Elevator Company's costs and expenses on a per bushel basis.

(c) The association will pay to the Elevators Company all amounts disbursed by the Elevators Company directly or solely for the benefit of the association, and as well its proportionate share of the cost to the Elevators Company of the book-keeping, recording, supervision and control of country elevators, the cost of stationery and all other expenses incurred by the Elevators Company

of or incidental to the operation or management of the country elevators, including the elevator of the association, and in addition thereto, its proportionate share of all interest, banking charges or other cost of financing the operations of the various cooperative associations or the country elevators, and also the cost of providing terminal facilities for the handling of the grain of the various associations, and all other payments of whatsoever nature and kind made for or on behalf of the various cooperative associations, and such proportionate share of the cost shall be ascertained upon a per bushel basis having regard to the proportion which the grain handled through the association's country elevator bears to all the grain handled by the Elevators Company for all the country elevators managed and operated by it.'

"12. It will be further noted that under Section 12 of the said agreement, it is provided as follows:

'Elevators
Company is
agent and trustee
for the various
parties.

It is understood and agreed by and between the parties hereto that the provisions of this agreement are subject to the provisions of "The Canada Grain Act" and that the Elevators Company is an operating company only and is acting as agent and trustee for the various parties hereto according to the exigencies of the relations between them and of this and all other agreements subsisting between the various parties, or any of them.'

"13. Since August 1, 1931, the Elevators Company under the provisions of the agreement has, as the agent and trustee of the associations, superintended and managed the operation of their country elevators, established and maintained terminal

facilities at the head of the lakes at Port Arthur and Fort William, handled and marketed their grain, and has arranged for the financing of their various operations.

*Incorporation and Organization of Local
Pool Elevator Associations*

"14. As above stated, between the years 1924 and 1930, 152 associations were incorporated and organized in Manitoba, and between the years 1930 and the present time a further 28 associations were incorporated and organized, making 180 in all. Attached hereto and marked 'A' is a list of the associations and their addresses.

"15. The Sanford Co-operative Elevator Association is typical of the group. It was incorporated under 'The Co-operative Associations Act', being Chapter 8 of the statutes of Manitoba 1925. Attached hereto and marked with the letters 'B' and 'C' are copies of its memorandum of association and its by-laws respectively. By Section 445 of 'The Companies Act' being Chapter 5 of the statutes of Manitoba 1932 'The Co-operative Associations Act' was repealed and Part VI of 'The Companies Act' was substituted therefor, which said Act as amended is now part VII of 'The Companies Act' being Chapter 36 of the Revised Statutes of Manitoba 1940.

"16. As shown by the said memorandum of association, the association was incorporated with an authorized capital of 1,000 shares of \$1.00 each, and it is provided by the said memorandum of association that:

'The business of the association shall be carried on on a non-profit basis, and no interest shall be paid in respect of capital stock.'

"17. At no time has any interest been paid on the capital stock subscribed by the members. Qualification shares only were issued to members, that is, one to each member, and later, namely by Chapter 8 of the statutes of Manitoba 1940, second session, the capital stock of all associations incorporated with authorized capital was cancelled, and the capital subscribed was declared to be a membership fund, and the word 'Limited' was deleted as part of their corporate names. Only producers of grain have been admitted to membership. No distributions have ever been made on a share basis, nor has interest been paid on share capital. Voting has always been on a basis of one member one vote.

*Incorporation and Organization of
Manitoba Pool Elevators*

"18. As above stated, the Elevators Company was incorporated by an Act of the legislature of Manitoba, being Chapter 113 of the statutes of Manitoba 1925, with an authorized capital of \$1,000,000 divided into 1,000,000 shares of \$1.00 each. It was provided by Section 2 of the said Act:

'That the company should not commence business until at least ten per cent of the capital stock shall have been subscribed and at least ten per cent of the amount of stock so subscribed actually paid up.'

"In order to comply with this requirement, the Manitoba Pool subscribed for 100,000 shares and paid up thereon the sum of \$10,000, the minimum requirement under the Act, which constituted the entire paid up capital of the Elevators Company. By Chapter 26 of the statutes of Manitoba 1940, second session, it was provided:

'That the company should not have any capital stock or shares or shareholders, and that all of the capital stock of the company, issued or unissued, be thereby cancelled, and that the paid up capital of the company shall constitute a membership fund.'

"19 The associations are the only members of the Elevators Company. Each of the associations is a separate, distinct and autonomous body, and is governed by a board of seven directors elected from among its members. At their annual meetings each association elects from its members an accredited delegate to vote on behalf of the association at the meetings of the Elevators Company. The delegates have the exclusive right to vote at all meetings of the Elevators Company. For the purpose of electing directors to the board of the Elevators Company, the province of Manitoba is divided into seven districts. At the annual meetings of the Elevators Company delegates from each district hold separate meetings and each district nominates a member from its district for election to the Elevators Company board. These nominations are then placed before the general body of the delegates as nominations to the board, and the board of directors is then elected by vote of the general body. The election of directors takes place annually, the term of office being only for one year unless re-elected.

Method of Operation

"20. The associations by their memorandum of association, 'The Co-operative Associations Act', 'The Companies Act' and course of business have always been under an obligation to do business for their members at cost, accounting to them at the end of each year for any savings that may have been effected through the handling and marketing of their grain. All the associations incorporated prior to 1931 entered into contracts with the members for the handling of their grain, and all of such contracts contained a provision that the business of the association should be conducted on a non-profit basis, and that the growers should not be charged with anything on account of profit. Although the making of contracts was discontinued at the time of the financial crisis, the associations have always continued to account every year to their members for any savings arising out of transactions on behalf of the members, and have allocated and credited the savings to them."

I might explain that this is a distinctly different set-up from anything that you have had before your Commission so far, and it is rather unique in elevator operations. There was a contract between the growers and these different associations that they would deliver all grain to the associations, and instead of having three cents or one cent or any other controversial figure, as indicated recently, we had an arbitrary deduction from the pool price of two and a half cents a bushel. That was phenomenal because the street spreads vary all the way from five to fifteen, seventeen and eighteen cents in general elevator operations. The Manitoba local associations adopted the basis of a straight two and a half cents a bushel but they had as protection a pooling contract, so that if at the end of the year the elevator produced a surplus on the basis of two and a half cents it was refunded as a patronage dividend. If it produced a deficit, enough money was deducted from the final payment on the wheat pool contract to make up that deficit. That was its protection and that is why it attempted to work on an arbitrary figure of two and a half cents.

"21. Under the provisions of 'The Canada Grain Act' the associations, as the operators of licensed public country elevators, have been required to receive all grain offered for storage without discrimination, but the associations have as far as legally possible abstained from handling grain of non-members. The member business for the past five years has been 96.77 per cent of total deliveries."

The average at the moment is 99 per cent plus. There is the odd mortgage company that has not taken out membership, perhaps a Hutterite colony, but generally speaking we are within shooting distance of a straight one hundred per cent.

"22. When a member delivers grain to the association at its country elevator, he is paid at the time of delivery what is between himself and his association, an initial payment. The initial payment made to the member is on a basis of quantity and quality, leaving to be accounted for by the association to the members any moneys over and above the initial payment realized from the handling and marketing of the grain. The transaction, therefore, as between the association and the member is not complete at the time of making the initial payment, but remains open until the year end, when the association accounts to its members for all such moneys and allocates and credits them to the members accordingly.

Special Reserve and Working Capital

"23. As provided by paragraphs 6, 7 and 8 of the said agreement bearing date the first day of August, 1931, each of the associations agreed with the Manitoba Pool, the Elevators Company and the government that it would contribute to a reserve fund to be known as the 'Special Reserve' a sum or sums equal in the aggregate to 10 per cent of the total capital cost of the association's country elevator and other properties purchased from the Elevators Company pursuant to the agreement; such contributions to be made by deductions from any moneys of the association which might come into the hands of the Elevators Company as the result of the operation of the country elevator of the association, and the moneys as and when received were to be paid into a special account in a chartered bank or banks to be known as the 'Special Reserve Account,' and no moneys were to be withdrawn from the said account without the written consent of the provincial treasurer of the province of Manitoba. The special reserve fund was to be used in so far as it might become necessary to reimburse the government for any loss which it might otherwise sustain by reason of any of the associations being unable to meet its payments on its elevator in any year or by reason of the failure of the Elevators Company to receive or pay or to account to the government for any portion of the purchase price of the country elevators sold to the various associations. And it was further provided that if and when the government should receive from

the various associations as payment of the purchase price of the said elevators sums aggregating \$2,100,000, together with interest, the said special reserve or such part as should remain intact, should be repaid to the various associations, so that each association would receive back the portion contributed by it, or such part thereof as should be available for repayment after taking into account any deficit of the association, which might have been made up out of the special reserve.

Working Capital

"24. In the initial period from 1925-26 to 1930-31, the Elevators Company had virtually no working capital. As at 31st July, 1931, its paid-in capital was \$10,000, and it had accumulated a general contingency reserve of \$73,700, but these moneys were invested in furniture, fixtures and other frozen assets. Its working capital requirements during this period were obtained from the banks by way of loans guaranteed by the Manitoba Wheat Pool.

"25. The four party agreement became effective on the 1st of August, 1931, but contained no provision for supplying the Elevators Company with working capital. There was no wheat pool to guarantee the bank loans, so the Manitoba government generously advanced the sum of \$300,000 by way of callable loan, which the company used as liquid cash in obtaining its grain loans from the banks. This in itself was not sufficient to satisfy the banks, so it was necessary to obtain from the Manitoba government a postponement of its first claim on the elevator properties. Fortified with this security, the banks still refused to finance our grain loans. We then appealed to the dominion government, and it came to our assistance by way of a dominion guarantee of our bank loans. With the credit of the federal treasury behind us the banks were satisfied to advance the necessary money to finance our grain loans.

MR. E. T. PARKER: They did not want the guarantee of the Bank of England too?

THE WITNESS: No. They had not thought of that. The picture has changed, though, Mr. Parker.

"26. During the first few years the associations operated on a strictly individual basis. Savings from the operations were refunded in cash to the members and deficits were recovered by assessments against the members. In the year 1931-32, however, the results were almost disastrous. The average

volume of grain handled through the elevators was at an all time low. Thirty of the associations met all their obligations and showed a refundable surplus. Twenty-seven of the associations met all their obligations except a portion of their depreciation and capital repayments. The remaining ninety-four associations showed a deficit. The province extended assistance to the ninety-four associations by permitting them to add the deficits on operating expenses and interest to their capital debts, and by allowing the capital repayments to remain in arrears.

"27. Lack of working capital was still a major problem. The dominion government renewed its guarantee for the crop year 1932-33. The province agreed to leave the \$300,000 cash fund with the Elevators Company, and also renewed its postponement of lien. Such accommodations though decidedly helpful could not indefinitely be depended upon. The farmer members were grateful for the assistance, but they desired to stand on their own feet. The only apparent solution was to postpone refunds of members' savings, and to retain them in a working capital reserve but allocated to the individual members.

"28. This experience in 1931-32 showed that the local associations could not continue on a strictly individual basis. Accordingly a supplementary agreement was entered into between the associations and the Elevators Company in the year 1933 providing that all revenues in respect of business of the associations coming into the hands of the Elevators Company should in each year be pooled and constitute one general fund from and with which the Elevators Company should in each year, in so far as the amount of the fund for that purpose would permit:

(a) Pay the proportion of the operating expenses of all the associations which signed the four party agreement of August 1, 1931, which the associations forming the group were required to pay under the said agreement.

(b) Pay to the government all interest due the Elevators Company on the purchase price of the elevators by all associations which entered into the said agreement or like agreements.

(c) Pay to the government all instalments due the Elevators Company on the purchase price of elevators by such associations.

(d) Pay into special reserve account the contributions to special reserve to be made by such associations as provided by the four-party agreement; and retain the balance until the Elevators Company shall have accumulated working capital in the amount of \$400,000.

"29. As at July 31, 1936, the working capital reserve showed a balance of \$227,600. Operations had been moderately successful and it was felt desirable to resume patronage dividend payments, as well as to fix the maximum contributions to working capital reserve of each association.

"30. These proposals were incorporated in amended supplementary agreements in 1936 amending the 1933 agreement as follows:

"2 (a) If by the first of August, 1936, the association shall have contributed to special reserve account a sum or sums equal in the aggregate to 10 per cent of the total capital cost of the association's country elevator and other property, it shall thereafter contribute to the Elevators Company on account of working capital, one-half of its net surplus, and shall be at liberty to distribute the balance of such net surplus among its members as a patronage dividend.

(b) If by the said first day of August, 1936, the association shall not have contributed to special reserve account 10 per cent of the total capital cost of the association's country elevator and other property it shall thereafter apportion any available net surplus as follows:

One-half to special reserve account.

One-quarter to working capital.

One-quarter to its members as a patronage dividend.

"After payment in full has been made to the special reserve account the distribution shall be as set out in sub-clause (a) hereof.

(c) The association shall not be under obligation to contribute on account of working capital a total amount in excess of 50 per cent of its total capital cost."

That fixed the maximum that any association would ever be required to put into the revolving fund for working capital. It is an arbitrary thing but it is 50 per cent.

" (1) When the association has contributed to working capital an amount equal to 50 per cent of its total capital

cost, the association may thereafter distribute the whole of its net surplus among its members by way of a patronage dividend.

(2) If the association shall have contributed to working capital by the first day of August, 1936, an amount exceeding 50 per cent of its total capital cost, the association shall be at liberty to distribute the excess payment among its members by way of a patronage dividend.'"

That is required because two or three associations at that date had already provided a fund in excess of 50 per cent.

"31. When moneys for refunds first became available in 1936-37, it was decided that such refunds should be returned to the earliest contributors to the working capital reserve. This method has been continued regularly since that year, and is now generally known as the 'revolving fund plan.'

"32. As at 31st July, 1944, the working capital reserve showed a balance of \$1,635,400, of which \$1,600,300 was allocated to the credit of local association elevator shippers' accounts, and \$35,100 to platform shippers. The amounts allocated to elevator shippers were as follows:

1940-41	\$ 700.00
1941-42	1,900.00
1942-43	58,000.00
1943-44	1,539,700.00
	<hr/>
	\$1,600,300.00
	<hr/>

"This sum is within \$100,000 of the final amount to be contributed for working capital under the terms of the 1936 supplementary agreement.

Summary of Operations

"33. After providing for all expenses, including depreciation of \$3,440,750, total savings of \$7,688,550 have been allocated to the individual members in the nineteen year period of operations. All of these moneys have accrued from net revenues.

"34. As at January, 1945, \$3,209,150 of the above savings had been refunded in cash to the members entitled thereto, and the balance of \$4,479,400 was accounted for as follows:

Repayable to members (pending tax clarification)		\$1,991,000.00
(1) Savings invested in elevators and terminals		
A. Special Reserve	\$240,200.00	
B. Terminal Mortgage Debt repayable to contributing members in 4 annual instalments bearing 5% interest.....	269,400.00	
C. Allocated surplus in respect of growers' equities.....	343,400.00	853,000.00"
		<hr/>

Perhaps I should explain the terminal mortgage debt. A year ago we still had outstanding between \$400,000 and \$500,000 of an outside mortgage on the terminal, and with a very large patronage dividend we recommended to the delegates at the annual meeting that instead of withdrawing all funds in cash and dissipating them in the way farmers may be inclined to do, it might be well to pay off the mortgage. We suggested, if they cared to, that they might devote part of the money to repay the mortgage owed outside and they themselves took the mortgage on the terminal. That they did to the tune of about \$412,000, and that is being repaid under contract in five equal annual payments bearing 5 per cent interest, which they record as investment income on their personal income tax returns.

" (2) Working Capital Reserve

A. Elevator Shippers	\$1,600,300.00	
B. Platform Shippers	35,100.00	1,635,400.00
		<hr/>
		\$4,479,400.00"

There are platform shippers who do not live within a radius where they may conveniently use the elevator association. They have carload lots and shovel over the platform and we accord them the same terms as are accorded through the elevator association, requiring them to build up a nominal amount on the retention basis the same as is required in the association. That is \$35,000.

"35. The amount 'repayable to members' as above \$1,991,000 is held in suspense awaiting the disposition of income tax appeals. Otherwise it would have been repaid to members in recent weeks. Thus the results can be re-stated as follows:

Savings refunded in cash.....	\$3,209,150.00	
Savings repayable to members....	1,991,000.00	5,200,150.00

Savings retained in terms of agreements approved by the members (total of (1) and (2) above).		2,488,400.00
		<hr/> \$7,688,550.00

“36. Unallocated Reserves. As at 31st July 1944 the following reserves had not been allocated to the local associations or to their members:

1. General Reserve	\$284,100.00
2. Terminal lease and purchaser reserves	63,500.00
	<hr/> \$347,600.00

1. General reserve was accumulated over a fifteen-year period from 1925-26 to 1939-40, in annual amounts varying from \$500.00 in 1925-26 to \$38,300 in 1937-38, the average for the period being \$18,900 per annum. The purposes of the reserve are to provide the Elevators Company with a contingency fund to take care of windstorm or other extraordinary damages to country elevator properties, and to provide for unforeseen financial losses which may result from its transactions as agent for the local associations. The reserve has been maintained approximately at the above level since June 30, 1940.”

We do not carry windstorm and cyclone insurance. It is one of the contingencies we provide for, and the reserve is a moderate one having regard to volume of business done and the risks incurred.

“2. Terminal lease and purchase reserves were established in two amounts, \$25,000 in 1935-36 and \$38,500 in 1937-38, in anticipation of possible losses in terminal operations which were not subsequently realized. The first amount was set up to provide for possible losses in the operations of two terminal elevators which were rented during the 1936-37 year. The second amount was set aside in view of the increased financial obligations resulting from the purchase of Terminal No. 3 on 23rd July 1938, on which a

mortgage debt of \$340,000 was assumed. In the event of an operating loss in any year, the amount of \$38,500 was available to cover the annual payment of interest and principal on the capital cost of this terminal.

"37. These reserves are held by the Elevators Company as agent and trustee for the local associations, with their knowledge and consent. The local associations at any time can request that these amounts be allocated and paid out to the members who deliver grain in the years in which the reserves were established. The Elevators Company is in position to comply promptly with such a request, merely by completing a simple arithmetical calculation to determine individual shares in the reserves.

Financial Data. Grain Handling Facilities

"38. In the nineteen-year period from 1925 to 1944, grain handling facilities were acquired on behalf of the local associations, and related depreciation reserves were provided there against, as follows (in round figures):

	Cost	Depre- ciation Reserves	Write- off 1st August 1931	Book Value 31st July 1944
Country elevators, dwellings, etc.	\$3,708,300	\$1,952,300	\$295,600	\$1,460,000
Country storage annexes	474,500	474,500		
Terminal elevators	1,346,250	808,650		537,600
Terminal storage annex	205,300	205,300		
Seed Plant (in process of construc- tion 31st July 1944)	112,500			112,500
	<hr/> \$5,846,850	<hr/> \$3,440,750	<hr/> \$295,600	<hr/> \$2,110,500"

First of all, I wish to explain the write off as it appears in the third column of this table. The overpayment in respect of the Manitoba Wheat Pool was \$3,400,000. The only asset the pool had was its interest in the association's country elevators. They had unpaid accounts of \$2,400,000, which left \$1,000,000. The government in its wisdom wrote off another \$295,600, and called it \$2,100,000 even. That is the so-called write-off. It col-

lected all the money it could have collected, with the exception of approximately \$300,000.

Then, with respect to the \$474,500 under the heading "country storage annexes", that is completely written off now.

Then, the figure under the heading "terminal elevators" does not exactly correspond with the outstanding mortgage to the individual member; but the balance was financed within the company itself.

The figure under "terminal storage annex" is also completely retired at this date.

Then, coming down to the figures under "Seed Plant", may I say that nothing has been paid on that yet, because of the year's operations.

"39. Originally, the foregoing assets were financed as follows.

Period 1925 to 31st July 1931:

Loans from Manitoba Wheat Pool	\$3,056,800
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Period 1st August 1931 to 31st July 1944:

Mortgages on terminal elevators	1,236,250
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Working capital and other reserve funds	1,553,800
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	\$5,846,850
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"40. During 1931, the province of Manitoba became the principal creditor in place of Manitoba Wheat Pool, whose assets the province acquired in connection with its guarantee to the lending banks to whom the wheat pool was indebted. At that time the capital debt of the Elevators Company was \$2,395,600, from which the province allowed a write-off of \$295,600, leaving a net debt of \$2,100,000. The Elevators Company in turn allocated this write-off to the local associations, in varying amounts aggregating \$295,600.

"41. Mortgages on terminal elevators, originally held by the various vendors, have since been paid off in full.

"42. The amount provided from working capital and other reserve funds includes the cost of country and terminal storage annexes which were built in 1940 and 1941 at a cost of \$679,800. This investment was recovered through accelerated depreciation charges against earnings of the years 1940-41, 1941-42 and 1942-43. Similar rates of accelerated depreciation were allowed to all other grain handling organizations by the

Income Tax Department in respect to temporary annex facilities."

That agreement was discussed in detail yesterday.

"43. As at July 31, 1944, the only debt owed to outside creditors was an amount of \$480,700 payable to the province of Manitoba. This debt bears interest at 5 per cent and is payable in annual instalments of \$95,262.26 principal.

Tax Position

"44. Down to the year 1940, the exemption of the associations and the Elevators Company was never questioned by the Income Tax Department. In 1943 income tax and excess profits tax assessments were levied against three of the associations, namely, Roblin, Lenore and Lyleton, assessing them in respect of operations for the year 1939-40. These were to be test cases to decide whether the amounts distributed by the associations by way of patronage dividend to their members were deductible from the income alleged by the department to have been earned in that year by the associations. These assessments are now under appeal.

"45. In 1944 the Elevators Company was assessed both for income and excess profits tax in respect of the association's surplus, which has accrued from the year 1939-40. This assessment has also been appealed.

"46. As the result of these assessments, surpluses in the hands of the Elevators Company for the year ending 1944 have been held in suspense but allocated to the individual awaiting the disposition of the appeals, or clarification of the income tax position.

Forage Crop Seeds Department

"47. This department was organized for two principal purposes:

- (1) Because of repeated requests for a cooperative processing and marketing agency for forage crop seed producers (members of our elevator associations), who were dissatisfied with the services rendered and prices paid by the existing seed handling companies.
- (2) There was an increasing realization among some members of our organization as to the place legumes and grasses must play in any permanent agriculture. It was quickly

becoming apparent that Manitoba, in fact Canada, had a soil conservation problem of lesser magnitude but of equal relative importance to that of the United States, where the federal government is spending annually millions of dollars in trying to correct bad cultural practices.

"48. The Elevators Company acts as agent for ten co-operative forage crop seed associations, which are separately incorporated. These associations do not own local seed plants or other equipment, but the members send the seed to the central plant operated by the Elevators Company. Current prices are paid to producers at time of delivery. The Elevators Company cleans the seed to the grade standard required by the Dominion Plant Products Division, markets the product domestically and by export to the United States, Great Britain and Russia.

"49. Surpluses are allocated to the local seed associations and through them to the credit of the individual members as final payment on their forage crop seed deliveries.

"50. By agreements with associations and their members, part of the final proceeds has been refunded to them in cash and part has been retained for working capital purposes.

"51. The department commenced operations on the first of July, 1939. The first year ended June 30, 1940 with a loss of \$10,917.50. The 1940-41 fiscal year also showed a loss of \$1,754.24. Much valuable experience was gained from the operations of these two years, and the Elevators Company absorbed both losses through its general contingency reserve, as a contribution to the organization and the establishment of the department. This contribution had the unanimous approval of the delegate body.

"52. In the three years since 1940-41, final payments of \$62,075 have been allocated to the credit of individual members, of which \$23,760 has been refunded to them in cash. The balance of \$38,315 is held to their credit in working capital reserve.

"53. During the past five years operations have been carried on in rented premises. In 1943-44 those premises were inadequate for the increased volume of deliveries, and also created some dissatisfaction among members by reason of their inconvenient location. It was therefore decided to build and equip a new plant in a locality suitable to the majority of producers, and this work was in process at 31st July, 1944. The new

plant is now in operation, and deliveries for this year to date are in excess of the total handle of any previous year.

General

"54. Farmers from the earliest settlers in western Canada have pooled their efforts by joining together to make community purchases of threshing machines, which were beyond the requirements and resources of the individuals. At threshing time each farmer contributed his quota of man hours and teams for the fall's operations. The threshing machine moved from farm to farm until all the threshing was completed. In this manner they reduced their threshing expenses down to actual cost as the result of a cooperative enterprise.

"55. The acquiring of elevators for the marketing of their grain was but one more link in the chain of services required to enable the farmers efficiently to carry on and control their own farming operations. After the associations were organized it became apparent to the farmers that it was essential for them to acquire terminal facilities if they wished to retain the identity and control of their grain until it was finally disposed of.

"56. The present system of handling and marketing facilities has with many setbacks and disappointments been developed over a long period of years, and represents the goal which the farmers are striving for, namely, the right to handle and control their products through their own facilities until finally marketed.

"57. The growing of grain in western Canada has from its inception proved to be a hazardous enterprise. The major difficulties have been:

- (1) Climatic conditions, which take the form of extended periods of drought, wherein a farmer must annually work and seed his land, not knowing whether there will be sufficient moisture to enable him to reap a crop that will return him his seed.
- (2) Violent fluctuations in world markets over which he has no control, have left him in many instances with a bounteous crop which could not be sold at prices sufficient to cover the cost of his operations.
- (3) All his equipment and farm supplies are purchased in a protected market, at prices which have been fixed by manufacturers and distributors to cover all contingencies.

"58. It follows, therefore, that a farmer bears all the manufacturing and distributing costs on his production equipment, as well as return on capital invested and any corporate taxes paid by the manufacturers or distributors. Yet he is forever being exhorted to increase his efficiency and lower his production costs in order to compete in the world's markets. The farmer rightly feels that his cooperative elevator is simply a piece of community farm machinery, which he and his neighbours use to improve their productive efficiency.

"59. Now a word as to the alleged discrimination because joint-stock elevator companies are taxed, and cooperative elevator associations are not subject to income tax. We submit that any income tax and excess profits tax collected from any elevator company is actually paid by the farmers who deliver the grain to that elevator. There seems to be a lot of unsound thinking in Canada that the farmer exists to provide profits for the service and secondary industries; not that these secondary and service industries exist to serve the farmer who produces the world's food. The joint-stock elevator company does a service for the farmer not primarily to assist the producer, but to make an earning on invested capital. The co-operative elevator is the producer's instrument or piece of machinery to enable him to produce more efficiently.

"60. For the last nineteen years farmers have been operating cooperative elevators in the pool organizations. During that period handling charges and street spreads have been substantially reduced. By reason of their experience and the results of these elevator operations, we have reason to believe that country elevators operating for fifteen years or longer must have repaid all capital cost—and in many cases, fat profits besides. Many elevators in the west have operated up to forty years.

"61. From our experience in the Elevators Company in the last five years, we would assume that any elevator company with reasonably fair management must have greatly improved its financial position, even after making provision for its income tax payment. The position of Manitoba Pool Elevator Associations because of the last five years' operations is simply that they have succeeded in paying their 5 per cent depreciation and operating expense. All moneys over and above that have been allocated as patronage dividends, thereby improving the financial and social position of the farmer members who col-

lectively constitute the organization. Moneys so allocated are not reserves, but are debts to the members which are regularly repaid under the revolving fund plan. This is simply a method of internal financing. We could pay out these debts and finance our operations by external borrowings. We prefer to finance internally. Economists have said that the wartime increase in dominion public debt is not dangerous because 'we owe the money to ourselves'. We have applied this same principle in our financing by 'borrowing from ourselves'.

"62. The operations of the associations have benefitted all farmers throughout the province, whether members of the association or not, because their competition has forced improvements in services and a lowering of the charges of other companies.

"63. There are 380 shipping points in Manitoba served by elevators, and Manitoba Pool Elevators are represented at 183 points. The 180 cooperative elevator associations own 211 elevators out of 690 in Manitoba, or 30.58 per cent. Permanent storage capacity operated by cooperative associations is 33.5 per cent of the total permanent space in Manitoba. In the 1943-44 crop year our associations handled 36½ per cent of the grain delivered in the province, and at competitive elevator points only the cooperative associations received delivery of 55 per cent of the grain delivered at those shipping points.

"64. Since the inception of the Elevators Company the policy of the organization has been to reduce handling costs as experience warranted. During the first six years of operations, the Elevators Company handled all grain in any quantity for the grower members for a flat service charge of 2½ cents per bushel. For the handling of grain in lots less than carloads this was a revolutionary departure from previous grain-handling practices.

"In the crop years 1932 to 1939 the Elevators Company operated on equal tariffs and charges with other companies. Generally speaking, during this period grain production in Manitoba was much less in volume than in any period before or since.

"65. Since 1940 the Elevators Company has repeatedly recommended reductions in handling charges and storage rates in negotiating annual handling agreements with The Canadian Wheat Board. The record in this connection is as follows:

Year		Handling charge per bushel	Storage rate per bushel per day
1939-40	4 top grades	4½c	1/30c
	4 Nor. & lower	5½c	
1940-41	4 top grades	4c	1/45c
	4 Nor. & lower	5c	
1941-42	(same as 1940-1941)		
1942-43	All grades	3c	1/50c
1943-44	All grades	3c	1/60c"

May I point out that the figure 1/30 cents under the heading "storage rate per bushel per day" amounts to 12.2 cents per bushel over a twelve-month period.

MR. E. T. PARKER: Is that the amount actually charged?

THE WITNESS: That was actually charged. Then, may I point out that the figure 1/60th of a cent per bushel per day works out at 6.1 cents per bushel when carried for twelve months.

"66. All the rate reductions indicated above were the direct result of recommendations made to the Canadian Wheat Board by the Alberta, Manitoba and Saskatchewan Pool Elevators. The reductions in 1942-43 were strenuously contested by the line elevator companies. They also objected to the reduction of the storage rate in 1943-44, and sent a delegation in protest to the Hon. the Minister of Finance at Ottawa. The Canadian Wheat Board adopted the Pool's recommendation, and the three pools signed the agreement."

Perhaps I might go back to the previous page, to give some idea as to what these reductions amount to in dollars and cents. We will omit the first two years, because that was a joint agreement and all companies were quite satisfied to reduce the rate as in 1939-40 to what it was in 1940-41 and 1941-42. I will not claim any credit for that any more than the other companies may claim credit. But in 1942-43 I can say that the pools can take complete credit for the reduction to 3 cents, and the reduction to 1/50th cents per bushel. There was delivered to the wheat board that year 400,000,000 bushels of wheat, and the Commission can easily figure up the saving, as well as I can.

In 1943-44 the 3 cents was carried on, and the pools recommended and submitted by letter to the Canadian Wheat Board in respect of the handling agreement that we would do it for 1/60th, which is a reduction of 1.2 cents per bushel per year. There was delivered to the board that year 275,000,000 bushels of wheat.

There has been a great deal of fuss made about this crown wheat which is owned by the so-called Crown Company, and is handled under lend-lease, or in some other fashion. The inference has been that on the crown wheat some crown company paid the carrying charges and that in some way or another the pools have attempted to reduce handling charges and leave the Crown Company holding the bag. Well, the crown wheat taken over on September 27 was approximately 300,000,000 bushels. At the end of July, 1944 there was about 150,000,000 bushels left in that account. The average carry-over for that ten months was 225,000,000 bushels of crown wheat.

I do not know what the carrying charge should have been, but I submit to the Commission that we reduced it from 1/50th to 1/60th, which is 1.2 cents for twelve months. So that there were 225,000,000 bushels of crown wheat on which we saved the crown carrying charges of 1.2 cents for twelve months. But even for the end of the grain year it amounts to 5/6ths of that cost for the ten months. Maybe we still charge too much today at 1/60th, but the point is that the pools have attempted to reduce the cost of carrying in store this quantity of grain.

Then, so far as the carrying charges in respect of any other wheat is concerned, the farmer pays them. It is not the Canadian Wheat Board or the Canadian government.

I should like the commission to refer to the report of the Canadian Wheat Board, which has been tabled before the committee on agriculture. I refer to the report for the crop year 1942-43, part of which I should like to read into the record. This report shows that the carrying charges on wheat stored in country elevators, storage on wheat stored in terminal elevators, storage on wheat stored on farms and transfer of futures to deferred months totalled \$58,483,987.39.

That is in respect of the 1940 crop. This is still carried over in the grain year from August 1, 1940. This is the crop on which we finally got the payment from which all these charges were deducted.

Then, turning to Exhibit No. 6, which is the crop account for 1941, from the period August 1, 1941 to July 31, 1943, we find that the storage charges paid by the Canadian Wheat Board on behalf of the farmers amounted to \$9,693,365.91.

Then, Exhibit No. 7 in this report of the Canadian Wheat Board is for the 1942 crop account, for the year ended July 31, 1943, and shows total storage charges of \$8,159,900.33.

That is a grand total of better than \$76,000,000 which was paid on behalf of the farmers for carrying their wheat. Out of that there was paid in respect of the 1941 crop, paid in the year 1943, the sum of \$648,637.37 to the farmers for wheat storage in their own farm bins. And in respect of the 1940 crop there was paid to farmers the sum of \$6,147,457.89.

So that from the \$76,000,000 paid by the wheat board on behalf of the farmer to all companies, including ourselves, we may deduct roughly \$6,800,000 paid to the farmers, which leaves a net of about \$70,000,000 paid for carrying grain in storage.

"67. These reductions in the handling and storage charges per bushel, when multiplied by the bushels delivered by the producers in the respective crop years, amount to an appreciable sum of money which in effect increased the revenue of the farmers, and correspondingly decreased the revenue of the handling companies.

"68. For the crop year 1944-45 the three pools recommended a storage rate of 1/60th of a cent per bushel per day, and the other handling companies insisted on a storage rate of 1/50th."

That was when we attempted to get an agreement last summer.

"The wheat board asked for a compromise and the pools agreed to a storage rate of 1/55th. On that basis the agreement was drawn this year, and provided for a maximum handling charge of 3 cents per bushel."

I might point out that we filed a letter—the three pools—offering to do it again at 3 cents and a carrying charge of 1/60th. I should not say that the wheat board asked for a compromise; the wheat board were being most improperly embarrassed, and and so was the government, by having to pass orders in council under the War Measures Act to legalize an agreement to which some people would not consent. So we offered to split the difference between what some companies thought was a fair price, and what we thought was a fair price. So the compromise was ours; it was not asked for by the wheat board. They simply asked, "Gentlemen, can you reach an agreement?"

"69. In September, 1944, when the three pool boards had seen the first draft of their respective financial statements for the crop year 1943-44, and had assessed the probable deliveries for the current year, it was realized that the handling charge

could be further reduced without danger of operating loss. So in keeping with our progressive policy of lowering charges to the farmer, we reduced our country handling charges by a further 2 cents a bushel on all grains and made corresponding adjustment payments retroactive to all those producers who had delivered grain to our country elevators from August 1 to September 30, 1944."

There has been a lot of controversy in the last two days about the so-called reduction. We simply raised the price on a bushel of wheat to the farmer. I can submit plenty of evidence to show that 3 cents never would carry a country elevator. No one can operate a country elevator at less than \$3,600 a year. That would pay only \$50 a month to your agent. You would get up much closer to \$4,000 or \$4,500 when you are carrying a country elevator to handle roughly 100,000 bushels of grain. I would say that 3 cents is simply a nominal figure. It does not matter whether it is 5 cents, 6 cents, or 3 cents, or what it is. It never could finance an elevator, and it is not true to say that it is running at less than cost. If that were all the revenue the elevators received they would all go broke at 3 cents, and would also all go broke at 5 cents. I say that because the actual cost of running these things is anywhere from 5 cents to 7 cents a bushel, and you have to get your revenue from some source other than what are known as handling charges or street spread at the elevator door.

If you are going to look over the figures you must look at them in proper perspective, and relate them to the storage earnings which may accrue in respect of other merchandising.

At this point I should like to read into the record a circular I sent out under date September 29, 1944. This was sent to all secretaries, and copies were sent to all presidents of our 180 local associations. Copies went to our agents, too. This explains what we did, and why we did it—why we increased the price on a bushel of grain by 2 cents a bushel at the country elevator door for this year.

"Manitoba Pool Elevators was organized as a service organization, and our motto has been 'Service at Cost'."

Might I add that those words are printed on every elevator we have in the country—"Service at Cost".

"Consistent with that principle, your management has endeavoured to operate your facilities so as to give to the growers the best service possible, and to set a service charge

on the different grains and grades of grain, so that all member patrons pay their equitable share of costs of operation and protection against business risks.

"Through the years as we gained experience, and the farmers gained confidence so that our volume increased, the management has progressively reduced street spreads and handling charges, and at the end of every year gave an accounting to each of the members, allocating and paying all surplus overcharge made during the year as a patronage dividend.

"In the crop year 1942-43, our surplus savings proved to be much greater than had been anticipated, and some members questioned the policy of levying service charges which produced greater savings than seemed to be necessary to insure sound business. The 1942-43 grain year was in many ways abnormal, and it seemed not likely that the organization would repeat the experience in succeeding seasons."

Might I point out that I have twenty-four local associations in my districts, and so far as possible I try to attend their annual meetings when we give them their local balance sheets each year in the month of November. In November, 1943, when I was submitting the balance sheets for 1942-43 I had an old gentleman take a look at me, and say, "Young fellow, we do not pay you money as our director to pile up a great big balance sheet so that you can make a good fellow of yourself when you come to our meeting. We are organized for service at cost, and all we ask you to do is to maintain a safe business margin; and you are not making a good fellow of yourself by coming out here with 5 cents or 6 cents a bushel to offer as a patronage dividend." That came from one in the country who elected me, Mr. Chairman.

"We have just recently had from the auditors the balance sheet for the 1943-44 crop year, ended July 31, 1944, and again it is apparent to us that our savings are much greater than could be considered necessary for sound business procedure.

"We have recently conferred with the boards and managements of the other two pools, and they find themselves in a very similar position. As a result of that consultation, it was agreed that each board and management would review its own particular situation, first as regards savings of the last two years and secondly, the prospective volume of handle for the current crop year, with a view to determining if it was safe and advisable to reduce the handling charge to the grower."

It is unfair to say that you look at last year's balance sheet and determine the definite revenue of the succeeding year. That is all cock-eyed. All you can do is look at the results of last year in view of known conditions. In September—certainly not in July—in September Manitoba is harvesting. Last year we had several estimates as to the crop, and we had our own, plus those of other companies and other people. We know what our percentage normally is, and we can determine within a few millions of bushels how much grain we have good reason to expect to handle. We knew what was in storage on the farms and in public storage, and we had some fair idea of the possibilities in the transportation system with respect to taking wheat out of Canada. So that we could make a kind of estimate, at least, as to what our storage earnings might be. It was in the light of what had happened under certain conditions the previous year, and because we had a fair idea of what was in front of us from September on, for the current year, that we determined that we could increase the initial payment to the grower and still maintain a safe business margin.

BY MR. ELLIOTT:

Q. Would you make a statement, Mr. Parker, about the uncertainties in respect of crop conditions? You know something about what may happen between July and September. A. In the first place this is not the grocery business, nor is it the dry-goods business, where you may take an inventory and know what you have got. You do not know what the condition is going to be. You cannot determine accurately what your storage will be, from July; it is only an estimate. You have not got all information with respect to country elevators, and you do not know what your grade loss or averages may be. You may have a substantial grade loss—you do not know.

You are not sure about it in September, but you are a little more sure at that time of the year than you are in July. In July we do not know what the crop will be. We have seen crops almost ready to cut, and then have them simply washed out of the picture. Those are the many risks with which you are familiar, having lived in western Canada.

Q. I just wanted to have that on the record. A. Incidentally, that meeting of the Board of Grain Commissioners in July of that year was about a month earlier than usual. I challenge anyone to estimate in July what his potential earnings will be in the succeeding year in the grain business of western Canada.

You can determine more accurately in September, but again it is an estimate. And I submit our estimates will provide us with a fair and safe business margin.

"It has now been decided by the Saskatchewan Pool and ourselves that for the present year, starting Monday, October 2nd, wheat, oats, barley, rye and flax shall be bought in the country at a reduced handling cost of 2 cents per bushel.

"This year's handling agreement with the Canadian Wheat Board authorizes a maximum service charge to elevator and handling companies of 3 cents a bushel, and it is our intention now, for this year, that we shall handle wheat for 1 cent a bushel. An adjustment of 2 cents per bushel will be made as soon as possible on all grain delivered since August 1, 1944.

"I know our member growers will appreciate the fact that this lessening of our handling charge will mean more money when you deliver your grain, and automatically it means much less money in patronage dividends at the year end.

"I would like to assure our members that your board and management consider this a sufficiently safe operating margin for the current year. I hope you will understand that this is a condition that must be reviewed every year and that the excessively low handling charge is only possible because of the members' loyalty and the volume of grain that is being delivered to this organization.

"In another year when the volume of grain would be much less and marketing conditions are different, the handling margin will necessarily have to be increased again to maintain a sound business operation."

I submit it is only for one year. It may be 5 cents next year, for all I know.

"The Saskatchewan Pool are adopting the same action as Manitoba Pool Elevators, and the Alberta Pool still has the matter under consideration.

"May I emphasize again that it is only through the continued loyalty of the members and the large volume of grain which you are putting through your own facilities, that your organization has been able to offer an unprecedented low handling charge for grain."

That last paragraph is propaganda, Mr. Chairman. Then, the brief continues:

"70. Manitoba Pool Elevators pioneered in introducing and installing modern cleaning equipment. The gross bushels

delivered to the Pool Elevators Company since 1925 was 307,955 452, of which total 99,374,463 bushels were cleaned. In some instances cleaning the farmer's grain made a grade gain for him. From the grain that was cleaned 336,591,114 pounds of screenings were taken out. Much of this was returned to the farmers for feed, and some of it was sold and brought additional revenue that way. Had this grain not been cleaned the freight costs for shipping the screenings to Fort William, estimated on the average freight rate of 17 cents per 100 pounds, would have amounted to \$572,204.89. The members of the associations feel that their cleaning machinery has been of inestimable value to the producers."

This organization pioneered in very expensive modern cleaning machinery in country elevators.

"71. Besides these direct and indirect economic advantages, the Elevators Company provides additional services to its members. A central library in Winnipeg with nearly five thousand volumes is available to any person living in Manitoba outside the urban areas, which have public libraries. The Elevators Company pays the postage both ways on the books. We have some thirty-one boxes, each with about twenty-five books of good fiction literature, which we circulate among our associations. In addition, many of our associations have established shelf reference libraries in the elevator offices for the benefit of their members.

"72. We have 180 local boards, each of seven directors, meeting fairly regularly throughout the year. Besides doing the business of their associations, they constitute study groups which study all matters of community, provincial and even wider interests. Of recent years a great deal of study has been given to soil conservation, which is fundamental in any agricultural country. The Elevators Company joins with the United Grain Growers and the Canada Malting Company in rendering assistance to the junior seed growers' clubs organized under the provincial department of agriculture. In addition we had organized up to last year some twenty-eight crop improvement clubs with a membership of 417. These club members have obtained new varieties from the Dominion rust research laboratory at the Manitoba university. These clubs have propagated and distributed seed particularly suited to conditions in their own communities. In this manner the standard of grain production in many communities has been substantially improved.

"73. A great deal of study has been given by our association boards to community planning relating to post war projects, and for two years we have been servicing one of the National Film Board circuits in this province. Further information in respect to the educational activities of this organization may be found in the directors' report for the year ending 31st July, 1944.

"74. Much study has also been given by our local associations to the matter of better health services and hospital facilities for dwellers in the rural areas of Manitoba. Our association boards have been in the forefront in the organizing of units of the Manitoba Hospital Service Association.

"75. It is our contention that the associations and their trustee, Manitoba Pool Elevators, are service organizations owned and operated by the farmers, for the farmers, and in the interests of the farmers. Their sole and only purpose of existence is the betterment of the social and economic life of rural Manitoba."

I should like to elaborate one other thing, referring to the last two paragraphs which deal with social service organizations. They want service at cost; they do not want a surplus out of it. They want just a straight, sound business proposition, and that is all.

I am sorry that when the Commission was in western Canada it could not have found it convenient to hold meetings, not in Calgary, Winnipeg and Regina, but in some of the smaller towns and rural areas which constitute these organizations. I think in the last two days you have received a distorted view of what these pools mean, because they have been described as being colossal in size. I am speaking of the other two, of course; ours in only a tadpole in the puddle.

But may I point out that even that \$1,900,000 of last year belongs to 21,000 farmers. That is not \$100 each, on an average. Some of them get perhaps a dollar, or \$1.50. Then, some, of course, get \$400 or \$500, depending of course on the volume. But I suggest that the Commission should get the perspective. It is the individual farmer in the local community who is organizing cooperatively, and doing what the great liberal free press of this country is telling us to do, namely to produce efficiently so that we can export out of a protected market into an unprotected market. We are attempting to do that. We are also attempting to do a lot of other things which probably will

never be done. But if you get only what you got in Calgary, Regina, Winnipeg and Ottawa, without thinking of those outside farmers, then I say you have got a wrong impression of the whole set-up of this pool organization.

I should have liked you to see some of the homes in which those people live, and see the kind of plumbing that they have not got, and the coal oil lamps the kiddies read by, and the schools they attend.

That is the argument, and with those words I would close what I have to say, leaving them for your consideration.

THE CHAIRMAN: Mr. Scarth?

MR. SCARTH: I reserve the right to ask a few questions at the end, Mr. Chairman.

MR. E. T. PARKER: I think perhaps Mr. Fillmore had better proceed first.

BY MR. FILLMORE:

Q. As the statutes have been referred to previously, I will draw your attention to Part VII of the Manitoba Companies Act, that is the part that deals with co-operative associations. Limited liability is provided by section 132 (2); and sections 123 and 124 provide that Part II of the Companies Act applies—that is the part that sets out how an ordinary joint stock company may be run—mainly to indicate that the local association is a body corporate and politic. Then under section 1239 (3), I think it is, all the reserves may be retained if the by-laws of the association so provide. Now, Mr. Parker, have you a sample of the typical by-laws of the local associations? A. I think they have all been filed with the Commission.

Q. I have not got access to them, and I would like to know whether they provide that the directors may retain any portion of the surplus. That can be looked up in the meantime.

MR. E. T. PARKER: A copy of the by-laws of one of the associations is attached to the brief.

THE WITNESS: It is only attached to the copies that the Commission have.

MR. SCARTH: I will furnish a copy to you, Mr. Fillmore.

BY MR. FILLMORE:

Q. Were you a director of the old Manitoba Pool, Mr. Parker? A. Yes.

Q. The Manitoba Pool was the one that formerly conducted the grain business or conducted the pools, as they were called? A. As a selling agency only.

Q. It did business with the central selling agency, the same as the other pools? A. Yes.

Q. Did it have contracts with the growers? A. Yes.

Q. Did they provide for deduction of commercial and elevator reserves? A. Yes.

Q. Did they also provide that the pool would account to the grower on the basis of quantity and grade of particular grain for the season? A. Yes.

Q. Did it make initial payments, interim payments, and then a final payment? A. When it had the money.

Q. Did it issue participation certificates? A. Yes.

Q. And it made provision along those lines, I take it? A. Yes.

Q. The Manitoba Pool, as a result of losses in 1929, I believe, went into bankruptcy, did it not? A. It was forced into bankruptcy, but not in 1929.

MR. SCARTH: 1932.

BY MR. FILLMORE:

Q. It went into bankruptcy in 1932 as a result of overpayments in 1929 or 1930? A. That is right.

MR. SCARTH: 1930.

BY MR. FILLMORE:

Q. It does not matter about the year. Did it at the time it went into bankruptcy owe the farmers for elevator and commercial reserves approximately \$3,000,000? A. That is right.

Q. And it also owed the provincial Government about \$3,400,000? A. That is right.

Q. The reorganization is shown in the Statutes of Manitoba, 1932, Chapter 52, I believe. Mr. Scarth can check that. Now, Mr. Parker, I do not find any provision made for paying back the farmers who had contributed to that amount of \$6,400,000, or, let us say, first, that amount of approximately \$3,000,000. What provision was made for paying back the farmers who had contributed approximately \$3,000,000 in commercial and elevator reserves? A. What provision is usually made when you go into bankruptcy?

Q. I did not think the directors of the pool would then be taking the hard-boiled attitude of ordinary business men. I thought you were probably just as kind-hearted then and as solicitous for the farmers as you are now. Have you mellowed since then? A. No. Let us be realistic.

Q. However, no provision was made for paying back the farmers who lost their money then?

MR. SCARTH: If the directors had had the kindest dispositions in the world, I do not think they could have done that.

BY MR. FILLMORE:

Q. Manitoba Pool Elevators Limited was then owned by the Manitoba Pool, was it not? A. No.

Q. The shares of Manitoba Pool Elevators Limited? A. No.

Q. Some of the shares? A. The Manitoba Pool advanced the money.

Q. Put it whichever way you want. The reserves were invested in Manitoba Pool Elevators Limited? The elevator and commercial reserves had been invested by the Manitoba Pool in Manitoba Pool Elevators Limited?

MR. SCARTH: What do you mean by "invested"?

MR. FILLMORE: Loans or shares.

THE WITNESS: They were loaned by the pool to the local associations.

BY MR. FILLMORE:

Q. And when the bankruptcy was over, Manitoba Pool Elevators Limited had the assets, but they did not owe those liabilities? That was the situation, was it not? A. Manitoba Pool Elevators, did you say?

Q. Yes. A. The local associations still owed the unpaid part of their liabilities, but to whom? Is that your question?

Q. Put it this way: the locals owned the country elevators and Manitoba Pool Elevators continued to own the terminal elevators? A. Didn't have any terminals then.

Q. In 1931 had no terminal elevators? A. I think not.

Q. However, the country elevators in which the local associations were interested had been purchased or partly purchased through elevator and commercial reserves? A. That is correct.

Q. After the bankruptcy was over the assets remained as before, but there was no one who owed \$3,000,000 to the farmers for those elevator and commercial reserves? A. So the Bankruptcy Court decided. It was covered by legislation later.

MR. E. T. PARKER: I do not know what that means. What did the Bankruptcy Court decide? That does not make sense to me.

MR. FILLMORE: Of course the Bankruptcy Court does not decide anything.

MR. E. T. PARKER: He says it did.

MR. SCARTH: It is putting a witness in a rather difficult position to ask him about the most complicated thing in the world. Mr. Fillmore is now asking the witness to decide what may have been the liability of another company for the debts of the bankrupt company.

THE CHAIRMAN: It would be a moral obligation rather than a legal one.

MR. FILLMORE: I was referring to the moral obligation, in view of the interest that Mr. Parker takes in the farming community. His interest goes far beyond any hard-boiled business attitude, but apparently it did not in 1931.

BY MR. FILLMORE:

Q. Manitoba Pool Elevators Limited was incorporated—I think it is in your brief—in 1925, chapter 113 of the provincial statutes. It is a limited liability company, under section 11; management by directors is provided under section 6; and it is a body corporate, under section 1. It is given very extensive powers. I would point out that it has power to do business of all kinds; you can find power to do almost anything, except that there does not appear to be any right to pay taxes. After 1931 did Manitoba Pool Elevators Limited acquire any terminal elevators? A. Yes.

Q. What terminal elevators did it acquire? A. We have acquired three, commonly called Pool 1, 2 and 3.

Q. Where are they located? A. Fort William and Port Arthur.

Q. What did they cost? A. I think it is stated in the brief. I have forgotten.

Q. I think the amount of the mortgage is in the brief, but

I doubt if the amount of the purchase price is there. You have \$1,346,000—is that correct? A. That is the total.

Q. They have now been paid for? A. They have been paid for in full, yes.

Q. And paid for out of earnings of Manitoba Pool Elevators Limited? A. No.

Q. Does Manitoba Pool Elevators Limited operate those elevators? A. Yes.

Q. Has it operated them? A. Yes.

Q. And the title to them? A. Held in trust as agent for the locals.

Q. Where do you find that trust agreement? A. The trust agreement is set up in the incorporation.

Q. Can you point to a trust agreement and to any paragraph in any trust agreement? A. I think it is in the four-party agreement.

MR. SCARTH: In the four-party agreement.

MR. FILLMORE: In what paragraph?

MR. SCARTH: It is quoted right in the brief.

THE WITNESS: Page 4, section 12.

BY MR. FILLMORE:

Q. This provides: "It is understood and agreed . . . that the Elevators Company is an operating company only and is acting as agent and trustee for the various parties hereto . . ." But where does it provide that the terminal elevators which might be acquired by the company might belong to the local associations? A. I am sorry, I did not get the question.

Q. I will put it this way: is there anything further in writing dealing with the ownership of the terminal elevators? Do you know of anything else?

MR. SCARTH: There are two more clauses. The first is that they shall supply terminal facilities for the locals, and then that the locals shall contribute and pay the cost, which they have always done. They have paid all the cost.

BY MR. FILLMORE:

Q. Have those terminal elevators been operated in the same manner as other companies operate their terminal elevators? A. Mr. Fillmore, I do not know how other companies operate their terminals.

Q. Do you know how the terminal elevators are operated?
A. I know how ours are operated.

Q. You do not know how the others are? A. No.

Q. Do you take any grain from other parties as well as from your own country elevators? A. Sometimes.

Q. Do you pay diversion premiums? A. Yes.

Q. Get diversion premiums? A. Yes.

Q. And do any mixing? A. Well, now, what do you think?

Q. We heard yesterday something to the effect that a lot of money can be made out of mixing different grades. I was wondering if you did any of that. Have you made money by that means in your terminal elevators? A. I would hope so.

THE CHAIRMAN: The answer, therefore, is Yes.

BY MR. FILLMORE:

Q. You derive revenue from storage charges? A. Yes.

Q. Elevation? A. Yes.

Q. Cleaning? A. Yes.

Q. And out of all that you have some revenue, I take it? It has been a profitable business? A. Just a minute. That was part of the marketing machinery and business that we did for the member in the local in the country.

Q. No matter who has made the money, the operations have been successful? Let us put it this way: no matter for whose benefit they have been successful? A. Yes.

Q. You have a fourth terminal leased from the Alberta Pool? A. No.

Q. What is your arrangement with the Alberta Pool? In order to shorten it, I will read from your directors' report for 1944. A. You do not need to read it. We are very glad to file with the Commission the operating agreement between the Alberta Pool and ourselves, showing how we share the operations. Briefly, the Alberta Pool has designated Manitoba Pool Elevators as their agent and manager of their terminal, and we do the complete operation as agent for the Alberta Pool identically as we do it as agent for our locals in the country. And after providing for the operating expenses and the annual depreciation and interest, all moneys left over are rebated back to our local associations and to the Alberta Pool, on a bushel basis in proportion to what each one delivers in regard to the whole.

Q. In the year ending July 31, 1944, I believe your total receipts were nearly 60,000,000 bushels? A. I cannot verify that figure, because I have not got the records here.

Q. That is in your annual report? A. If it is in the annual report, it is correct, but I cannot verify the figure if I have not got the records here.

Q. The report states the division of total receipts was as follows: Manitoba, 28,588,777 bushels; Alberta, 23,783,927 bushels, and 3,609,056 bushels were received from other sources. A. That is probably correct.

Q. And in addition to those receipts you diverted to other terminals, mills, malting companies, etc., 1,074,305 bushels of Manitoba and Alberta grain, on which certain revenues were received? A. Which figures indicate that we did an awfully good job in moving Canada's wheat crop from a congested market.

Q. You probably did a better job than any other companies? A. You could verify that through the Canadian Wheat Board.

Q. You told us that you did not know how the other terminals do their business, so they may have done a better job than you did. A "good job" is only a relative term. Perhaps the job you did was not as good as the job that somebody else did? A. Maybe not.

Q. The annual report states that the division of net earnings between Alberta Wheat Pool and Manitoba Pool Elevators resulted in Alberta receiving \$379,344.27 and Manitoba \$455,093.26. If that is not correct you can let me know. After 1931 and after the agreement with all the local associations that are referred to in the 1932 statutes went into effect, I believe Manitoba Pool Elevators Limited operated country elevators? I know you say you operated them on behalf of the locals—I am not going into that part of it—but the local elevators were operated in the name of Manitoba Pool Elevators Limited, were they not? A. Yes, that is correct.

Q. You did all the bookkeeping, put in the agents, managed all the country elevators for all the local associations? A. It is not quite true to say we put in the agents. The locals engage their own agents.

Q. You continued, I believe, a small voluntary pool up till 1935? A. I think so, for one or two years. I have forgotten.

Q. Just to give the Commission an idea of the amount of grain handled in the voluntary pool, I suggest that your annual reports show that in 1931 and 1932 the total wheat handled by Manitoba Pool Elevators was 7,986,000 bushels, and the amount of grain in the voluntary pool was 110,000 bushels; and that in 1932-33 you handled 12,538,000 bushels of wheat, and the amount of wheat in the voluntary pool was 616,000 bushels, and so on, in about that proportion. I am instructed that that is what your reports show. If that is not correct, I can be corrected later on. I will not stop to ask you to verify the figures now. That voluntary pool, I believe, was discontinued in 1935? A. I think that is correct.

Q. Was that pool operated along the lines of the contract pool which had been operated prior to 1930? A. Well, it was operated without a contract, but otherwise about the same.

Q. Without a contract? A. That is right.

Q. But otherwise about the same? A. About the same. It was only a dribblet.

BY THE CHAIRMAN:

Q. That is, the contract had been completely abrogated?

A. So far as the pooling and the marketing is concerned, but not in respect to the elevator contract. There were two separate organizations and two separate contracts.

BY MR. FILLMORE:

Q. Was not the original pooling agreement with the Manitoba Pool? A. Yes.

Q. Between the pool and the growers? A. Yes.

Q. Then the grain was marketed through the central selling agency along with the wheat of the other pools?

A. Yes, that is right.

Q. And after 1931 it was no longer marketed that way?

A. That is correct.

Q. The elevator company started operating the country elevators pursuant to the agreement in the 1932 statutes?

A. We were operating the country elevators identically the same then as we were before. There were two contracts, two separate contracts, as I have explained, the pooling contract and the elevator contract.

Q. Have you got an elevator contract? A. Yes.

Q. Is that along the same lines as shown in the statute?

MR. SCARTH: I do not think so. I think the locals made their own contracts with the growers.

BY MR. FILLMORE:

Q. In 1931 did each local association have a contract with Manitoba Pool Elevators Limited? Did each have a contract prior to the one set out in the 1932 statutes? I am referring to the contracts for marketing of grain. A. The individual grower did not have any contract with the elevator in respect to marketing; it was merely in respect to handling.

BY THE CHAIRMAN:

Q. He was not under any obligation to deliver his entire crop? A. He was not under any obligation to deliver. He was under an obligation to deliver if he signed a contract, of course.

Q. But he may have been a member of the pool and not of the pool elevator? One was a straight selling agency? A. Yes.

BY MR. FILLMORE:

Q. As I understand, your arrangements with the locals are set out in the contracts that are referred to in your brief? A. Yes.

Q. So, from and after 1931 you operated country elevators pursuant to the terms of those agreements? A. Yes.

Q. And you issued the statutory form of grain ticket, I believe? A. That is right.

Q. In the name of Manitoba Pool Elevators Limited? A. Yes.

Q. And you paid the current price to members and non-members alike? A. Yes.

Q. And you did not issue anything in the nature of a participation certificate to a man when he delivered his grain? A. No.

Q. So far as the manner and method of operation was concerned, you were operating the same as any other line elevator company? A. I am afraid not.

Q. Were the prices broadcast to the country agents each day? A. Yes.

Q. Did the country agents report to your Winnipeg office the amount of grain purchased from day to day? A. Yes.

Q. Did you hedge the grain from time to time? A. Yes; not necessarily all of it.

Q. But to the extent you considered to be good business? A. To the extent that the banks required it.

Q. Large quantities of that grain were purchased on cash tickets? A. Well, I do not know what you mean by large quantities.

Q. After 1935 was not a great proportion, over 90 per cent, bought on cash purchase tickets? A. Not necessarily.

Q. We have had other estimates here. What is your estimate? A. I cannot estimate. It may have been on cash ticket, it may have been on storage ticket, it may have been on consignment — I do not know what percentage of each.

Q. You do not know whether it was 50, 75 or 90 per cent? Would it be below 50 per cent? A. I would not have the faintest idea. It would all depend on what the grower wanted. The Canada Grain Act provides several ways of taking settlement for your grain. He elected to take whatever he wanted.

Q. Was there much consigned grain after 1935? A. There has always been a lot of consigned grain in Manitoba.

Q. Were not those car-lot shipments a small proportion of the total grain delivered in any one country elevator? A. No.

Q. After 1935 was not the amount of consigned grain on the whole much less than the amount of grain bought on the cash purchase ticket? A. Yes, on the whole.

Q. You bought some grain and you acted as agents, commercial agents, for consigned grain, I take it? A. That is true.

Q. And made the fixed charges for that business, did you not? A. That is true.

Q. As regards the grain purchased, I think you used the expression that you merchandised the grain, meaning that you sold it through the usual channels? A. Yes, I think that is correct.

Q. In connection with the purchase or handling of grain of the members of local associations, can you tell me if there was any obligation on the part of the local association to account to the member, to do anything for the member in respect to the grain purchased? A. Well, in the first place the grain is not purchased.

Q. We will not argue about that; that is a matter of law. You issued cash purchase tickets?

MR. SCARTH: Perhaps Mr. Parker would like to state the facts . He is not arguing the law.

MR. FILLMORE: He is arguing the law when he says the grain was not purchased.

MR. SCARTH: You asked him to make a conclusion of law when you asked him whether anything was done in respect to the grain purchased.

BY MR. FILLMORE:

Q. When grain came to a country elevator and the farmer wanted to get money for it, you gave him a cash purchase ticket? A. Yes.

Q. At the day's price? A. What do you mean by the day's price?

Q. The current market price, or the price as sent out to the agents.

BY THE CHAIRMAN:

Q. What use did he make of that cash ticket? A. It is exactly the same think as a cheque, sir.

Q. He might cash it at once? A. Yes, sir.

Q. It is just a convenient way of paying cash? A. Yes. You cannot give agents thousands of dollars in cash.

BY MR. FILLMORE:

Q. Then the grain was put in the elevator? A. Yes.

Q. The identity of the grain was lost? A. Absolutely.

Q. I just want to get the facts; we will not argue about whether there was a purchase or not. Can you tell me whether since 1931 any local association had an agreement in writing with any member or members obliging the local association to pay to the member the proceeds from the sale of the member's grain on the basis of quantity and quality? A. As I recall it, that is provided in the compulsory handling contracts that were signed by the original members prior to 1931. The only part of that contract that has ever been abrogated was the compulsory delivery section. In spirit the rest still remains in effect to this day. Since that time we have taken in a lot of new members who have not signed anything except an application for membership.

Q. Does the old contract carry over in fact or only in spirit? A. It carries over in fact.

Q. The grower's contract, the original grower's contract, was that with the Manitoba Pool or was it with the Manitoba Pool Elevators Limited? A. There were two contracts, Mr. Fillmore. One was with the Manitoba Pool, in respect to marketing. A member might be a pool member, but not necessarily a pool elevator member. If he was a pool elevator member, then he had another contract, between himself and his local association. There were two contracts, distinctly separate contracts.

Q. You say there were two types of contracts. One was between the grower and the local association? A. That is right.

MR. E. T. PARKER: Pardon me, that is the one that is attached to the brief?

THE WITNESS: Yes, that is the one.

BY MR. FILLMORE:

Q. Was there any contract in force between the grower and Manitoba Pool Elevators Limited? A. No.

Q. And is there any contract now in force directly between the grower and Manitoba Pool Elevators Limited? A. No.

Q. Is there now any contract in force between any grower or growers and any local association whereby the local association is obliged to pay to such member the proceeds from the sale of his grain on the basis of quantity and quality in that season? A. It is not necessary to have a contract in order to establish the obligation, because the by-laws and the operating agreement of the association provide how the affairs shall be carried on. At the annual meeting, with the balance sheet before them, the members decide, and then it is taken out of the hands of either the provincial board or the local board.

Q. We will put it this way, that the legal relations between any member and the local association are found in the constitution and by-laws and statutes? A. Yes.

Q. And written agreements? A. Plus the obligation from the individual to become a member of the association, accepted formally by the Board of Directors.

Q. Have you got a formal obligation here? A. I do not know, Mr. Fillmore, but I think it is attached also.

THE CHAIRMAN: No.

THE WITNESS: Then it is attached to the briefs filed by the locals in Winnipeg.

BY MR. FILLMORE:

Q. As I take it, the contractual relations between a grower and a local association must be found in the application for membership, the by-laws, the charter of the local association and the laws and statutes of the province? A. I think that is correct.

MR. SCARTH: That is quite a lot to ask a witness. Mr. Fillmore is asking him whether these documents contain all the agreement between the growers and the company, or whether there may be a hundred and one other things, such as course of conduct or something like that, that might bind the company. He is asking a man, who has no knowledge of this, to state whether these documents constitute the contract, whether the writings are the only things you may look to. I think that is asking rather a lot, and I object to it accordingly.

THE CHAIRMAN: You might ask if there is anything outside of those contracts.

BY MR. FILLMORE:

Q. Is there anything in writing between the member and the local association in addition to the application for membership, the charter and by-laws of the local association, and the statutes of Manitoba? A. And the operating agreement of the association.

Q. That is between the association, the local and the Manitoba Pool Elevators Limited? They are the agreements referred to in your brief? A. Yes.

Q. With regard to the incorporating Act of the company, you point out that there have been amendments whereby the word "Limited" has been dropped, and another one to the effect that the share capital is cancelled and the paid-up capital of the company constitutes a membership fund. Is that paid-up capital still in possession of the company under the name of a membership fund? A. I think it is so recorded in the last balance sheet.

Q. Was that change in terminology designed to afford any protection in the event of income or excess profits taxes being levied? A. No. That was the only way we knew in which to set up a company at that time. We were just providing

the very minimum. It was never considered by the membership other than a piece of legal machinery to get the things set up, and it was their request to set it up that way in place of the capital stock ownership.

Q. But that legal machinery, while a matter of great convenience, also protects the members from any legal liability in case the legal machinery got into trouble? A. It may have.

Q. They got that advantage out of it?

MR. SCARTH: Do you suggest it is wrong, Mr. Fillmore?

BY MR. FILLMORE:

Q. You also said that the associations have always continued to account in every year to their members for savings arising out of transactions on behalf of members and have allocated and credited the savings to them. By "members" do you mean associations or do you mean individuals? A. That refers to the associations' credit to the individual members.

Q. By accounting, you do not mean that you have paid over the money, of course, but that you have only allocated everything in one year or another? A. Yes, you must first make the allocation.

Q. On what basis have you made the allocations? Has it been on a bushel basis? A. Bushel basis.

Q. Let us get that clear. Do you allocate to associations? A. Allocate first to associations, in the head office books.

Q. It is allocated to associations on a bushel basis? A. That is correct.

Q. That is, you would credit the Clearwater, we will say, with so many bushels of wheat, so many bushels of coarse grains? A. Whatever it may be.

Q. Without regard to grade? A. Correct.

Q. Then in your books do you make any further allocation than to the association? A. We keep the books for the locals. That is provided for.

Q. So that the only allocation made by the Elevator Company is on a bushel basis to each association, is that correct? A. That is the first step in the procedure. There is a final allocation to the individual.

Q. The next allocation is by the local to the member? A. Correct.

Q. But in making that allocation do you simply give credit for so many bushels of wheat, oats or rye, as the case may be? A. Yes.

Q. Do you credit them with the total shipment? A. No. We carry a grower's ledger. Every bushel is recorded.

Q. Every bushel? A. Yes.

Q. That is the final basis of allocation? A. Yes.

Q. It may be that where there has been a poor crop in some districts certain elevators may have carried on business at a loss? A. Quite correct.

Q. Others may have made money, but the allocation is still made on the same basis to all local associations? A. Just what are you getting at? Just a minute till I get the meaning of your question.

Q. The credits which they get are based on the total number of bushels shipped in? A. What credits are you referring to?

Q. I am talking about the credits which you mention at the top of page 7 in your brief. You say, "the associations have always continued to account every year to their members for any savings arising out of transactions on behalf of the members, and have allocated and credited the savings to them." I only want to know what is meant by that statement. As I understand it, you are talking about allocating and crediting savings to local associations. First tell me how you make the allocations to the associations? A. Well, that is rather an involved story, Mr. Fillmore. It will take us through all our involved set-up. I do not know whether you want it all or not. I will go this far, to make it very brief. The handling charge, the service charge collected at the elevator, stays in the local association. Any grade gains or losses, overages or shortages, are credited or debited at the local association. Any storage earning made by an association is a direct credit and belongs to it.

Q. The credits to the locals are in dollars and cents, is that so? A. Yes.

Q. Are there any credits given to them on a bushel basis? A. From the head office, from the joint operations, yes.

Q. Does the head office give the locals any credit on a bushel basis? A. Yes.

BY THE CHAIRMAN:

Q. Do I understand the allocations to the individual mem-

bers are also made from your head office? A. The book-keeping is all done in the head office.

Q. Not only do you allocate to the local associations, but you then reallocate from the associations to the individual members? A. Yes.

BY MR. ARNASON:

Q. Is that allocation to individual members subject to the approval of the directors of the local association? A. No. The allocation is automatic. I mean, it is a matter of custom, it is automatic, except for a nominal amount; everything else is automatic in this allocation. If you want to follow through all the intricacies of this grain business, what we allocate somewhat arbitrarily perhaps at the local and then again at the terminal, we will be here the rest of this day.

At 12.30 p.m. the Commission adjourned until 2.15 p.m.

Ottawa, Thursday, April 26, 1945.

The Commission resumed at 2.15 p.m.

W. J. PARKER, *examination continued.*

BY MR. FILLMORE:

Q. Mr. Parker, I was asking about the allocation of earnings, and first about the allocation by Manitoba Pool Elevators to a local association. Perhaps we could approach it in this way. I am instructed that in the operating account of a local association there is a credit item reading: "grain earnings, including initial spreads, carrying charges, grade gains and losses, overages" and so forth, a credit of so much, which I presume is the amount remitted by the Elevator Company to the local association — or paid we will say; credited. Would you explain first what is meant by grain earnings? If that is not clear to you I would be glad to have you consult the accountant or anyone here who can answer the question better than you can. A. Grain earnings? Read the rest of it, please.

Q. First, grain earnings — A. Incidentally, that is one of the local balance sheets. It is the balance sheet of one of the associations.

Q. I am instructed it is a copy of one. First we have grain earnings. A. Made up of what?

Q. Including initial spreads, carrying charges, grade gains and losses, overages and shortages? A. That is what I explained this morning. Initial deductions are the one cent or three cents or five cents or whatever may be taken at that particular time or that year under what would be the market price at Fort William, less freight, less something else, what we call the initial payment. The next one is?

Q. Initial spreads? A. That is the street spread.

Q. Carrying charges? A. That refers to the matter we have been speaking about as part of the money that the wheat board paid on behalf of the growers. That is their share of the grain that was handled by their own facilities at that shipping point.

Q. Grade gains and losses? A. That is a matter of grade promotions. The agent may be able to make grade promotions by virtue of blending 2 and 3. If there is a very good 2 and a very good 3 he may be able to bring them together and make them all 2 or put 3 over the cleaner and promote it to No. 2 grade. There is a certain spread there so that there is an actual earning, and that is their own particular property.

Q. Overages and shortages? A. That refers to the weights. The grain is weighed in over the local scale, inspected by the government inspector, and all the rest of it, and overages occur because there is permitted under the Canada Grain Act one-half of one per cent as a deduction to take care of any loss. Then there is the dockage content that comes in the grain and which is taken out by the cleaner. It is all part of the grain handling picture, but overages are something which is controlled and scrutinized very carefully by the Canadian Board of Grain Commissioners. Those are things that are made through the grain delivered by local people to the local elevator. It belongs to them and is left there.

Q. Do not grain earnings include any gains you may have made through having purchased grain or taken delivery of it at a certain price and resold it at another price? A. As I explained this morning, we do not in our opinion purchase grain. We give an initial payment, and what the final payment may be we do not know until the grain is actually disposed of.

Q. I was going to come to that in a minute. Under an agreement which you entered into in 1931 and 1932, all revenues are pooled. The revenues of the whole 180 associations are pooled? A. For what purpose? Don't take it out of its context.

Q. You have an agreement with each of the 180 associations which provides that all revenues in respect of the business of the association coming into the hands of the Elevator Company should in each year be pooled and constitute one general fund from and with which the Elevator Company should in each year, in so far as the amount of the fund for that purpose would permit, make certain deductions? A. For what purpose are those deductions made? There is a specific reason for that clause. Read it all.

Q. In so far as the amount of the fund would permit, pay a proportion of operating expenses of the associations which sign the four-party agreement? A. Yes.

Q. That is one. B. Pay to the government all interest to the Elevators Company on the purchase price of elevators? A. Yes.

Q. C. Pay to the government all instalments due the Elevator Company on the purchase price of elevators by such association? A. Yes.

Q. Pay into special reserve account contributions to special reserve to be made by such associations as provided by the four-party agreement, and retain the balance until the Elevator Company shall accumulate working capital in the amount of \$400,000? A. Yes.

Q. You might say that to the extent there indicated the 180 associations are in partnership? A. Shall we call it a hybrid?

Q. I say that to the extent indicated by that agreement you are engaged in a joint enterprise? A. Put it this way. They are individually incorporated associations—

Q. No; just a moment. A. Permit me to answer the question.

Q. I would like to have the answers to my question and not speeches. A. I want to be perfectly frank so that you will understand it. They are individually incorporated associations and were so recognized in the four-party agreement drawn between the associations, the Pool Elevator Company, the government of Manitoba and the now defunct wheat pool. Under that agreement the government did not ask them to pool their individual revenues in one lump sum. They were recognized as individuals and the government took this responsibility in collecting from the 152 associations, as there were then. They put in one provision that each association, out of any surplus

that might accrue to it, or the first surplus that might accrue to it, should set up a 10 per cent special reserve account, which went into a special trust account to the province, from which the province would pick up any deficits that might accrue that year or later in respect of some deficit associations. That was all right. But may I say that we were relying a great deal on the government's generosity and after the experience of a year or two we realized that was not too helpful, so we made what I jokingly referred to as a hybrid, being really a cross between the straight line company or one of the other pools and our own individual set-up, which is enunciated in the clause that Mr. Fillmore has just read. It was a voluntary agreement between all associations whereby they would make sure that so long as the total surplus for the year was sufficient they would see that the government was paid in full in respect of capital liability, interest and 10 per cent reserve for that particular year. It was a voluntary arrangement effected in an attempt to make sure that the province was paid each and every year. To that extent we pooled as one, and for that purpose only.

Q. Certainly it is a voluntary arrangement and the arrangement was authorized by statute. In 1938 a statute was passed which ratified the power of your company, the Elevator Company and all the local associations to enter into an agreement of that character. Is that referred to in your brief?

MR. SCARTH: That statute was passed confirming the fact that they had power to make that agreement.

BY MR. FILLMORE:

Q. The right to make such an agreement was enacted in a permanent statute in 1938. As you explained, you found that the old agreement was not one that was satisfactory and you would operate as a line elevator company or in a manner similar thereto? A. No; I did not say that. I did not say it was not satisfactory. I said it had weaknesses which did not give as much protection to the government and the province as we desired to give, so we voluntarily arranged for what we called a supplementary agreement in 1933. The agreement had other provisions which you will probably come to later on. But for your information, Mr. Chairman, I may say that as a matter of internal bookkeeping any assistance given in respect of capital payment by one association who may be successful this year to another one is something to be adjusted later on before anyone gets clear title to his house. So far as interest is concerned,

we washed it out. That is their contribution to the joint operation because, no matter how small an association may be, the contribution of these few bushels to the whole makes some impact on the net cost per bushel, so that it is fair.

Q. I call your attention to a statement in your directors' report for the year 1931-32, page 3, under the heading, "Future Policy". You say: "One of the most important matters for the consideration of the delegates was the question which has been discussed at all local annual meetings earlier in the month, namely, the advisability of changing from the individual unit method to a system of line operations similar to that practised by the pool organizations in Saskatchewan and Alberta." Do you remember that discussion? A. No, frankly, I don't.

Q. That was after the agreement of 1931 had been signed and you decided then that, in order to operate more effectively, you would have to have an agreement between all associations and the central company? A. Between all associations and the central company? They had nothing to do with it.

Q. An agreement was entered into between the associations and the elevator companies in the year 1933? A. Yes.

Q. And it provided that all revenues in respect of the business of the association coming into the hands of the Elevator Company should in each year be pooled and constitute one general fund. That is your agreement. I do not care what you call it. A. I submit that you cannot take that statement from its context and give a true picture.

Q. Was the agreement given effect to? A. Yes.

Q. Were all revenues put in one general fund? A. Yes, for the purpose of doing that one specific thing only. They were to do that and then split again.

Q. It was for the purpose mentioned in the agreement? A. That is correct.

Q. Did that general fund include moneys which represented the difference between the sale price of all grain and the amount of money that was paid at the time it was delivered into the elevator? A. It might have, yes.

Q. It would? A. If there was a difference, yes.

Q. This morning you used the expression "merchandising gain" which I take it meant selling grain which was taken into a country elevator. Did this allocation by the central company to the local under the heading of "grain earnings" include part of that merchandising gain? A. Yes.

Q. I see another item headed "terminal earnings". Was that an allocation to the local based on terminal earnings?
A. Yes.

Q. Was the allocation of what we will call merchandising gain based on the number of bushels delivered by the particular association to the pool elevator company? A. The number of bushels shipped forward, yes.

Q. I am sorry; I did not get that. A. The number of bushels shipped forward.

Q. And did the terminal earnings include — perhaps I will put it this way: Was the amount allocated there based on the number of bushels shipped from that particular local?
A. Yes.

Q. Then you have two other items. There is insurance patronage dividend. I take it that is part of money you got from the pool insurance company. Then you have rentals. What would that be? A. That is rentals of agents' cottages. Permit me to explain that.

Q. Very well. A. That might be interpreted, sir, as investment income, as rent of the agent's cottage. As a matter of fact, any rent that we set up is charged the agent for the use of the house which the association may purchase for his convenience and it is not, in my opinion, enough at any place to pay carrying charges on the invested money in the actual building. As a matter of fact, before the War Labour Board and the income tax people came into the picture the association usually paid the agent's salary and gave him free rent, but when personal income tax came in we were obliged to charge a nominal rent, not less than \$10 a month, so that we increased his income tax. It is merely a matter of bookkeeping.

Q. Before any such allocation was made by the central company to a local, was the local's share or burden of A, B, C and D taken out of this general fund? A. Yes.

Q. And were there also taken out moneys spent for plant and equipment and other investments — we will say plant and equipment? Was the purchase price of terminal elevators taken from the general revenues which were pooled? A. No.

Q. Where did the money come from with which you bought terminal elevators? A. We made a small cash payment and since that time the terminals paid for themselves. The moneys used for the original small investment, cash investment, came in the main from the unallocated reserve

moneys and contingency moneys, in respect of which I pointed out this morning what we would attempt to justify as a reasonable amount having regard to the volume of business being done.

Q. When you say that they paid for themselves, do you mean that the terminals had earned enough money to meet the purchase price? Is that what you mean? A. I suppose that is a correct statement, if you wish to put it that way. But don't get me wrong; they have not paid in full yet. Go easy. I say that to the extent that they have been paid since then, it has come out of earnings created at the terminal department.

Q. You state in paragraph 22 that when a member delivers grain to the association at its country elevator he is paid at the time of delivery what is between himself and his association an initial payment. You have already explained that is equal to the market price? A. Yes.

Q. The initial payment made to the members is on the basis of quality and quantity. That means so many bushels of a certain grade of wheat at so much a bushel? A. Yes.

Q. The same amount you would pay to a non-member? A. Yes.

Q. Leaving to be accounted for by the association to the members any moneys over and above the initial payment realized from the handling and marketing of grain. So that what gets to the local association out of the pool revenues is the residue as to which you have given an explanation. Well now, what does the local association do when it gets credit or payment? First, does the local association allocate to its farmer members the credit which is allocated to the association by the central body? A. Yes.

Q. And is that allocated to the farmer member on the bushel basis? A. On a flat bushel basis. That is right.

Q. Irrespective of grade? A. That is correct.

Q. So many bushels of a certain kind of grain? A. That is right.

Q. In paragraph 23, on pages 7 and 8, you refer to special reserve and working capital. Did those two items come out of the general pool revenues pursuant to the terms of that agreement. A. No.

Q. From what source? A. The 10 per cent special reserve would come out of these pooled revenues if it were

necessary to dip into pooling in order to do it; but if all associations are, shall we say, financially successful for that year, if I may use that language, then each makes its own contribution to this required amount of 10 per cent. Incidentally, these 10 per cent reserves are all now set up and each association provides its own working capital on the basis which we have outlined in the brief from surpluses allocated to the members at the end of each year.

Q. It is true that each local association does, but this special reserve referred to in paragraph 23 is a reserve of the central set-up? A. No.

Q. Not at all? A. Not at all. It is set up in member's account for each association under the terms of the four-party agreement. We have nothing to do with it.

Q. And the working capital referred to in paragraph 23 — is that working capital of the local or the central? A. What did we say in paragraph 23? Working capital is provided by each association.

Q. That is working capital of each local? A. Yes, provided by each association from its own surplus.

Q. But the local association does not get any money except from the central association, does it? A. Well, all moneys belong to the locals. We simply do the bookkeeping and act as trustee. We do not own a dime, not a nickel.

Q. Does all money which comes into the hands of the local association come from the trustee? A. It comes through the trustee as agent. We do not create it in our own right.

Q. You scramble the eggs so that I can unscramble them. However, the trustee has pool revenues? A. Yes.

Q. And the trustee gets money from dealing in grain? A. The members' grain.

Q. And that is the way the money gets into the pool revenue, and then it gets from the pool revenues into the local associations?

MR. SCARTH: Qualify that, Mr. Fillmore. Don't put words in his mouth. He said that the local made a contribution to the special reserve and working capital in each year they made money. That should be made clear. That answer standing by itself is misleading.

BY MR. FILLMORE:

Q. One other item is mentioned in the brief. At the time the four-party agreement was entered into in 1931 the government agreed to accept for its claim against the elevators \$2,100,000 instead of the actual claim of \$3,400,000? A. There was not a claim of \$3,400,000 against the pool elevators. All that could be claimed against them was what they actually had. The pool elevators only had \$2,400,000. You could not claim more than the thing was worth. You are dealing with two companies.

Q. You say that \$3,400,000 was owing by the pool? Is that what you say?

MR. SCARTH: Perhaps I could shorten this. It is rather complicated. The only assets left are local country elevators that had been sold by Manitoba Pool Elevators to the locals at a price exceeding \$2,400,000. They all made certain payments on account to reduce the purchase price to a certain point, then the Manitoba Pool went into bankruptcy; but that did not affect outstanding contracts which had been entered into between Manitoba Pool Elevators and the locals, and the most the government could claim would be the balance of the purchase price owing under these outstanding contracts which were still alive and had not been affected by the fact that the Manitoba Pool had gone into bankruptcy. The government took this position. Manitoba Pool Elevators owes the Manitoba Pool a large amount on account of money borrowed. There is only one asset that is recoverable; we will take it, and you sell it back to the locals at \$2,100,000 in settlement of the debt.

BY MR. FILLMORE:

Q. A new deal was made for \$2,100,000?

MR. SCARTH: Yes; they settled for \$2,100,000.

BY MR. FILLMORE:

Q. One other point in connection with the administration of the general fund. I think you mentioned that in some years one local association might lose money whereas other associations might have a good year? A. Yes.

Q. How are the financial needs of the weak association furnished and charged up or dealt with? A. It was provided in that clause you read a while ago, the supplementary agreement of 1933 as amended in 1936. I quoted it in full and it sets out the position in better language than I can use.

Q. Mr. Scarth points to paragraph (a) in section 28 on page 9:

“(a) Pay the proportion of the operating expenses of all the associations which signed the four-party agreement of August 1, 1931, which the associations forming the group were required to pay under the said agreement.”

Is it under that clause that you furnish moneys for the benefit of weak associations? A. That is right.

Q. And in some cases is that simply charged up as operating expense? A. To the extent that it is operating expense it is so charged. If it is interest or salary or municipal taxes, or what have you, if it is payment in respect of capital liability for that year, it is also charged. But as a matter of internal bookkeeping that association must make repayment to those from whom it has got assistance temporarily before it gets clear title.

Q. I am instructed that one local association was advised by the auditor as follows: The item funds contributed by other associations for assistance is not a liability for which payment will be required. It is included in the balance sheet for the purpose of recording the amount contributed to your association for assistance since the supplementary agreement of 1933 became effective? A. That is correct.

Q. Is that a correct statement? A. That is correct.

MR. SCARTH. “Assistance” is a pretty broad word.

THE WITNESS: I put on the record what we mean by assistance. It does not refer to capital payment.

BY MR. FILLMORE:

Q. In paragraph 31 you say that moneys for refunds first became available in 1936-37, when it was decided that such refunds should be returned to the earliest contributors to the working capital reserve. And you say: “This method has been continued regularly since that year, and is now generally known as the revolving fund plan.” Who are the earliest contributors to the working capital reserve? A. The growers who, in the first year there was a surplus, made contributions.

Q. Do you mean in 1931, 1932 and 1933? A. If they had a surplus in those years.

Q. Whom do you call contributors? A. The members who delivered grain in those years.

Q. And who did not get paid; do you mean members who did not get paid? A. No, no. The surplus itself creates working capital under the revolving plan with which you are now familiar, and I have set out in the brief that if an association has \$1,000 surplus, \$500 is immediately repaid in cash if they so authorize at their annual meeting. If in the succeeding year they have another \$1,000 they will do the same thing again under the terms of the agreement, and the \$500 paid out is the \$500 left the year before.

Q. Is the working capital reserve held by the central body or the local association? A. The working capital reserve is held by the trustee, allocated to all individual farmer members of the 180 associations.

Q. Then you have some system whereby the trustee makes allocations directly to farmer members of the local association? A. It is just a matter of bookkeeping and the local association's own auditors set up their balance sheet and if it shows \$1,000, then the delegates to their local annual meeting make their own disposition under the terms of the agreement and under the terms of the Manitoba Act.

Q. You are referring to a disposition made by the delegates or directors of the local organization among its own members? A. Yes.

Q. Now, at page eleven, paragraph 33, you state:

"After providing for all expenses, including depreciation of \$3,440,750 total savings of \$7,688,550 have been allocated to the individual members in the nineteen year period of operations. All of these moneys have accrued from net revenues."

Now, in the first place, let me ask you why you refer to nineteen years; why do you not refer to fourteen years? A. Because, as I recall it, it is nineteen years since the first elevator started to operate.

Q. The present company or partnership—A. No.

Q. Or whatever you call it —

MR. SCARTH: The local associations have not changed at all.

BY MR. FILLMORE:

Q. You are talking about providing for all expenses; allocated by local associations, do you mean? A. Correct.

Q. But, since 1931, how much has been allocated by local associations to the individual members? A. I think that is all filed with the auditor of the commission. I have not those figures in my mind.

Q. Let me suggest, in the first place, that you should make a cut-off in 1931, because up until that time the contract pool was in operation. A. Nothing whatever to do with the operations of this elevator company, though; it has not changed.

Q. The elevator was owned by the pool and being run by the pool. A. Run by the Pool Elevator Company.

Q. Who had the shares in it? A. The pool advanced the money.

Q. Could we not put it this way: was the Manitoba pool operating a contract pool prior to 1931? A. Yes.

Q. And it made initial payments—interim payments and final payments—as previously explained. A. Yes.

Q. Are you including those final payments in that \$7,688,-550? A. Most assuredly not.

Q. You are not? A. No.

Q. What is included there; what money prior to 1931; what patronage dividends were paid by the Manitoba Pool Elevators Company Limited? A. Just whatever was made in respect of the grade payments, and what have you, within the local elevator — the same as you have it today. All other elevator companies have been handling pool grain; why should not this one? It had nothing to do with the pool price of grain, whatsoever.

Q. However, you have not got the cut-off at 1931. A. No, but we would be very glad to file it, if you care to have it.

MR. SCARTH: I think, Mr. Chairman, that Mr. Fillmore has taken us a long way. However I do not think there is any satisfying Mr. Fillmore's curiosity as to what goes on behind closed doors. I feel we have filed all that with the Commission.

THE CHAIRMAN: I think we can get all that information ourselves, Mr. Fillmore.

MR. FILLMORE: Yes; I suggested it only because there was a new plan of operation after 1931.

BY. MR. FILLMORE:

Q. However, you say that these savings have accrued from net revenues. A. Yes.

Q. That is to say, the savings distributed by the trustee to the local associations have accrued from net revenues.

A. That is in the brief, yes.

Q. That is, the net revenue which went into this general pool fund. A. Yes.

Q. Now, I note you say:

"Savings repayable to members \$1,991,000."

According to the directors' report, a copy of which we have, the amount as of July 31 preceding was \$2,190,587.54.

MR. SCARTH: I am still making this objection, Mr. Chairman.

MR. FILLMORE: Well, it is only a couple of hundred thousand dollars.

THE WITNESS: Just a mere drop in the bucket; let us pass it by.

MR. FILLMORE: It is not very important, so far as size is concerned, I guess.

BY. MR. FILLMORE:

Q. Then, turning to page twelve of your brief, paragraph 37, you state:

"These reserves are held by the Elevators Company as agent and trustee for the local associations, with their knowledge and consent. The local associations at any time can request that these amounts be allocated and paid out to the members who delivered grain in the years in which the reserves were established."

I should like to know this: is there anything in writing to give a member the right to demand and require payment forthwith? A. No, I suppose there is not. You will understand that that particular comment refers to the two reserves recited in paragraph 2 above. It does not refer to all reserves.

Q. And you do not know any provision under which there is a legal right to demand immediate payment.

MR. SCARTH: I do not think he should be asked to answer that question, either.

MR. FILLMORE: All right, I will leave it up to my learned friend to answer, in his argument.

MR. SCARTH: We should be able to settle it one day.

MR. FILLMORE: Perhaps you can answer it.

THE WITNESS: I can tell you this, that if the locals asked for it I would not contest it legally. They would get it immediately.

BY MR. FILLMORE:

Q. What you mean is that you would pay it on request, without question. A. Yes.

BY MR. ELLIOTT:

Q. When you say "if the locals asked for it" — do you mean asked for it through their delegates? A. Yes, if their delegates said, "We think you should take these funds out", there would be no suggestion from me, Mr. Chairman, to say that we need them further.

Q. You do not mean the individual. A. No.

BY MR. ARNASON:

Q. Is there any reason why these reserves, which are not allocated at present, cannot be allocated? A. With respect to those two reserves—terminal reserves—when I say they are not allocated, I mean that we have growers' ledger accounts which carry the bushels delivered by every grower in those years. It is merely a matter of calculation to stick down the few dollars that belong to each one. So, in effect, it is under allocation. You will remember that you have to go back in our balance sheets three or four years to see what we have come through. If we were in the present position, when we took those terminals on we would not have set up these amounts of \$25,000 and \$38,000.

Q. You are satisfied that in a general way your reserves can be allocated? A. Yes, we can allocate every cent, except contingency reserves.

Q. Except contingency reserves. A. Yes; we have to have some cushion. But apart from that we can allocate every cent.

BY MR. FILLMORE:

Q. By "allocate" do you mean pay; allocation does not mean payment, does it? A. Yes, we can pay, too, so long as they left sufficient for their working capital fund. It is in the contract, and the agreement is that if they wish to have it operate they have to leave their money there; but if they do not want that, and want it back — it is their business.

Q. So that these are allocated to the individual. He has to do it through this organization. A. If he were that kind of individual, we do not want him in the organization.

Q. You do not want a man who wants his money out.
A. Not until his turn comes.

Q. Then, in paragraph 39 at page thirteen you say:
"Originally, the foregoing assets were financed as follows: period 1925 to July 31, 1931, loans from Manitoba Wheat Pool \$3,056,800."

Is that the deductions? A. Yes.

Q. And with all those terminal elevators — you had not acquired them then, had you? A. No.

Q. It would only be part of the foregoing assets. A. No, but you have to take it all. You have \$3,000,000 which came from the pool originally, and then \$1,236,000 to an outstanding mortgage, financed on the mortgage basis; and the other is working capital.

Q. However, from August 1, 1931 to July 31, 1944 the amount is about \$2,900,000 which came out of pooled revenues for the purchase of plant and equipment.

MR. SCARTH: Part of that is mortgage—paid on mortgage.

MR. FILLMORE: I understood the mortgage had been paid off.

BY MR. FILLMORE:

Q. Has not that mortgage been paid off on the terminal elevators? A. It has been paid off to the outside. Part of it has been transferred by direct means from the individual farmers in the country.

Q. Some of it is still owing to the farmers in the country?
A. Directly to them as individuals.

Q. Subject to that the purchases of terminal elevators and working capital and other reserve funds have come out of the pooled revenues of the company, is that correct?

MR. SCARTH: "Pooled revenues", do you say?—no.

MR. FILLMORE: Of the trustee or of the organization.

THE WITNESS: Would you give me that question again, please.

BY MR. FILLMORE:

Q. Referring to paragraph 39 at page thirteen of the brief except for the amount owing to farmers who advanced moneys, did the money to pay mortgages on the terminal elevators and provide working capital in other reserve funds there mentioned, come from the revenues which were pooled pursuant to the four-party agreement? A. No, there is \$1,600,000 of working capital; I have explained how it has been acquired. I believe I have explained that fully, not only in the brief but also verbally. It is now within \$100,000 of reaching its maximum. We have established a maximum, and we established a policy of how we shall attain it. That is also included in there. Very little of it is frozen, as at the first of January it was all liquid.

Q. In 1931 you started out with very little working capital?

A. We did not have any.

Q. And you had elevators and moneys owing on the elevators? A. We did, yes.

Q. In the meantime you bought property and you got working capital? A. Yes.

Q. And you reduced liabilities? A. Correct.

Q. And did the moneys come from any source except from operating your country and terminal elevators pursuant to the agreements? A. It all came from that source.

Q. All from that source? A. Yes.

BY MR. NADEAU:

Q. Who owns the mortgages on the terminal elevators?

A. The mortgages have been discharged entirely.

Q. But who had them? A. The companies from whom we bought them. We bought from two grain companies. If you wish to have the names of the companies I could give them, but it was two companies that had them, and we bought them. That still shows in the statement—the dates they were bought, the price paid for them, and all that.

BY MR. FILLMORE:

Q. Now, I do not wish to take up the time to go into too much detail, but I would call the attention of the Commission to the net repayable surplus—that is, the net revenue, or whatever may be designated in each year, starting with 1931-32. I point out the terminal earnings distributed to local elevator associations, and the amount of patronage dividends paid, so

that these figures will be available to the Commission. If my learned friend is agreeable, I suggest that he check the figures, and that they go in later.

THE CHAIRMAN: You mean for the study period.

MR. FILLMORE: Yes.

THE CHAIRMAN: Which, by the way, is growing more and more formidable every day.

MR. FILLMORE: In presenting our brief we make some allegations of fact, and I want to substantiate those allegations. I can do so by going over the directors' reports from year to year. I do not wish to have to do it just now, however, or with the witness.

MR. SCARTH: On that point, may I say that that is one of my chief objections. Mr. Fillmore has a brief, and he now says he would like to prove his brief through asking some questions. These are all internal operations, and he can have everything he wishes to have.

THE CHAIRMAN: As I understand it, Mr. Fillmore is leaving it to us to dig it out of the documents we have; is that not so? He just wishes to take care that we do not overlook the suggestion, that is all.

MR. FILLMORE: The annual reports and statements are available to the Commission. Therefore it will be unnecessary to put it in or take up the time of going over each item.

THE CHAIRMAN: You say that the allegations contained in your brief are proved by the documents we have before us, and you ask us to look into them; is that not correct?

BY MR. FILLMORE:

Q. Now, Mr. Parker, I believe what you call the trustee has a membership in the Winnipeg Grain Exchange and clearing house? A. Yes.

Q. And also in the grain clearings association? A. Yes.

Q. Do you publish a paper known as the Co-operator?
A. No, we do not publish it.

Q. You have an interest in the company which publishes it? A. No, it is not a company. It is just a voluntary arrangement of co-operatives in Manitoba. They publish a little eight-page paper.

MR. FILLMORE: I shall file this statement with the Registrar.

MR. E. T. PARKER: What is that statement; give it a name.

MR. FILLMORE: It is a series of references, amounts and page numbers.

MR. SCARTH: I do not admit that any of the exhibit is true. It is just for the purpose of the Commission, is it?

MR. FILLMORE: Yes.

MR. SCARTH: My understanding is that it is not correct.

MR. E. T. PARKER: If Mr. Fillmore would make a statement as to what this document contains it would be satisfactory; it is not a question as to whether or not it is admissible. Rather it is a question of whether it is a set of references which may assist the Commission.

MR. FILLMORE: It is simply a statement, the headings of which are: Net Repayable Surplus for the years 1931-32 to 1943-44, both inclusive. And in the next column is the page reference number in the directors' report. In the next column is the heading: "Patronage Dividends" for the same years, and the next column shows the page numbers in the directors' report. I should like to file it for the convenience of the auditors.

THE CHAIRMAN: Is there any objection to that? I understand it is filed by way of an indication to us as to what we are to look for. My suggestion would be that Mr. Glassco and Mr. Ronald might look at it, and tell us whether we need it, and what it indicates.

MR. SCARTH: I have no objection to that.

BY MR. FILLMORE:

Q. Mr. Parker, you mentioned that you have no interest in the Manitoba Co-operator, except— A. There is no investment in it.

Q. And have you any investment in the Manitoba Co-operative Wholesale? A. Yes, we have a nominal investment there. I have forgotten how much it is, but it is a very small amount—to give us membership, only.

Q. And I think it has already been stated that you have an interest in Canadian Pool Agencies and in the Pool Insurance Company. A. We have.

Q. And have you an interest in the Canadian Cooperative

Wheat Producers Limited; that is the former central marketing agency? A. No.

Q. And there is a new company, I believe, being formed known as the Canadian Co-operative Implements, Limited, which is to go into the manufacturing business in the city of Saskatoon. Your annual report mentions that contributions are being made by the provincial governments. Have you made an investment in that? A. No, we have not.

Q. Have you that step in contemplation? A. Yes, perhaps we may, depending upon what they do.

Q. Is that project under consideration by the three western pools? A. Not jointly; they may be separately; but I do not know.

Q. And you have a forage seed department? A. Yes.

Q. And have an investment of \$100,000 in that? A. Yes, just a building—and a little bit of cleaning machinery.

Q. And you have an investment in war loans and victory bonds? A. Yes.

Q. The amount is shown in your statement. You have assisted the Manitoba Co-operative Dairies, and given them financial assistance? A. We have.

Q. In 1941 and 1942? A. I have forgotten, but we gave a little assistance.

Q. For the amount shown in your statement. A. Yes.

BY MR. E. T. PARKER:

Q. Are those gifts or loans? A. It is a loan, to help them out temporarily.

BY MR. FILLMORE:

Q. Did you make a small loan to the Saskatchewan Pool to help them out temporarily? A. They do not need help.

Q. I thought you had made them a loan at one time?

MR. E. T. PARKER: Perhaps they loaned to Alberta.

BY MR. FILLMORE:

Q. Have you made them a loan? A. The Saskatchewan Pool?

Q. Yes. A. We have deposited money with the Saskatchewan Pool at times.

Q. Do they owe you a large sum of money now? A. No, we owe the banks several millions right now, Mr. Fillmore.

Q. I beg your pardon? A. We owe the banks several millions right now.

Q. You have plenty of assets to cover that. A. The banks think so.

Q. Yes; you have more than enough to cover it. You did not mention that to try to make us think that you are hard up, did you? A. No.

Q. Then, just to review one or two matters, may I suggest that the sources of revenue which are available to you as trustee, and under an operating agreement, apart from the merchandising of grain, consists of gains or losses on non-members' grain. A. Well, if we have any, yes.

Q. And the operation of terminals. A. Will you re-word your question.

Q. I have just summarized: among the sources of revenue the trustee has, under the revenue pooling agreement, is the revenue from the operation of terminal elevators? A. Do you mean revenue accruing to the trustee?

Q. Accruing to you as trustee pursuant to the terms of the four-party agreement. A. Agreed.

Q. And, accruing to you likewise as such trustee, storage charges on crown wheat. A. Yes.

Q. And by crown wheat I mean wheat taken over by the crown in September, 1943. A. Correct.

Q. That is all. A. Yes.

Q. That is not charged back to the farmers, is it? A. No.

Q. And have you some coal business and flour business, or twine business? A. Half a dozen or a dozen of the locals do a little bit of it, for their members. We do not do it.

Q. It is done entirely by the pools, not by the trustee. A. Correct. And it is very small in total.

Q. And you have a small item covering the rent of agents' cottages. A. Yes.

Q. Did you receive interest from the moneys you deposited with the Saskatchewan Pool? A. Yes, and to complete the statement, the net interest is still in deficit.

Q. Have you some investment in a corn co-operative or pool in southern Manitoba? A. Yes, some of that is outstand-

ing — two or three little flat warehouses which we loaned them money on to run the corn pool for two years.

Q. Now, in paragraph 61 you say:

“The position of Manitoba Pool Elevator associations because of the last five years’ operations is simply that they have succeeded in paying their 5 per cent depreciation and operating expense. All moneys over and above that have been allocated as patronage dividends, thereby improving the financial and social position of the farmer members who collectively constitute the organization. Moneys so allocated are not reserves, but are debts to the members which are regularly repaid under the revolving fund plan.”

Now, do you refer thereto debts owing by the trustee or by the associations collectively to individual members? A. The individual association owes its own members.

Q. That is what is meant? A. Yes, I think that is a correct statement.

Q. And you mean to say that the local associations allocate everything above depreciation and operating expenses to the farmer members. A. That is correct.

Q. Have you each got a different revolving fund plan? A. No, they are all the same.

Q. What is the plan? A. What is the mechanics of the plan, do you mean?

Q. The rate of revolution. A. I said we had fixed a maximum arbitrarily at 50 per cent of the capital cost. As an illustration, an elevator costing \$20,000 would have a maximum working capital requirement of \$10,000. The contribution or the retention is 50 per cent of each year’s surplus until you reach the maximum.

Q. This door revolves each year. A. Yes, it revolves each year — when there is something to put in to make it revolve, and to that extent only.

Q. The door revolves if there is something in the door. A. Yes, and if there is not she does not.

BY MR. ARNASON:

Q. Does a member of the local association receive a statement each year as to the amount credited to him? A. No, we never have done that. If they wish to have it, they can get a statement from us, or see it in the books, but we never have

given each individual a statement. They each get a balance sheet, in their own local, disclosing the total amount of money set up to their credit. They can determine what the true amount is. Each man knows how much he delivered, so that it is a matter of simple arithmetic to determine what the amount is.

Q. Is there any provision for the transfer of the interest which a member may have? A. They may do it among themselves, if they wish, but to my knowledge they have not done so.

BY MR. FILLMORE:

Q. When you say that moneys so allocated are not reserves, but are debts, do you mean that they are debts in respect of which a man can walk in any day and demand money, or must he wait until the door revolves? A. Under the present set-up I think he would have to wait until the door revolves.

Q. And likewise, if a member died, his estate would have to wait until the door revolved. A. Until this year that was so. But from now on we propose that when a death occurs we will pay out in cash immediately the entire amount accruing to the estate. That has not been possible until the present time.

Q. At page 18 you mention the number of elevators that you have. By the way, did you buy forty-one elevators in 1940, or thereabouts? A. Yes, in Western Canada.

Q. Was the purchase price paid out of this central trustee fund? A. It was paid out of the unallocated reserve.

Q. Then to take care of those elevators did you organize twenty-six local associations? A. Well, I would not verify the number without checking, but we organized an association at each shipping point where we did not already have one. The difference between twenty-six and forty-one is the number of those points where we already had associations.

Q. When you speak here of some of the benefits you confer on farmer members or farmers in your districts, I suppose you realize that line elevators likewise have taken some steps to improve the position of agriculture in the community? A. Competition compels lots of things that we have not done before.

Q. I am sorry I did not hear what you said. A. Competition has induced people to take action that they had not taken before.

Q. Do you not think we all in Manitoba realize that our prosperity depends to some extent on the prosperity of the

farmer? A. I hope so, but I sometimes have reason to doubt it, Mr. Fillmore.

Q. Of course, I would not take you to be an unprejudiced observer, Mr. Parker. A. No, I am sure.

Q. Do you know whether the line elevator companies have assisted provincial and Dominion Governments in the distribution of pure seeds, handling this without cost and taking in payment commercial grain from the farmer on an exchange basis set up by the Government? A. Yes.

Q. Do you know whether they have sponsored crop-testing plans at a great many stations throughout the country? A. Yes.

Q. The method being to obtain from local farmers samples of grain they are seeding and to grow these samples in test plots, each sample being identified by a number? A. I know that.

Q. Do you know if they have actively participated in the work of the Bracken Committee in urging continuation of a guaranteed minimum price of 80 cents per bushel for wheat of the 1939-40 crop? A. That was self-evident.

Q. Do you know if they have provided funds for the carrying on of weed research work with a view to developing the best methods of cultivation to control weeds? A. No, I did not know they did that.

Q. Do you know if in drought years the line elevator companies worked with provincial Governments in providing seed and feed grain? A. No, frankly, I do not know.

Q. Do you know if in drought areas wheat was held in line elevators against possible seed requirements in the following year and feed grain shipped from the good crop areas to the dried-out areas and distributed to individuals against relief orders? A. Well, I do not know what your machinery was. I know the pool's machinery, but I do not know what the line elevators did.

Q. Do you know if the line elevators sponsored Junior Grain Clubs under the Agricultural Extension Departments of the universities and provided many of these clubs with registered seed necessary? A. Not in Manitoba.

Q. You say you do not know they have done that? A. Not in Manitoba.

BY THE CHAIRMAN:

Q. You recognize certain of these virtues, I see, Mr. Parker? A. Absolutely.

BY MR. FILLMORE:

Q. Do you know whether the line elevators have participated in the work of the Manitoba Wartime Committee on Agriculture? A. Yes.

Q. Do you know if they have urged the establishment of a Western Division of the National Research Council to conduct research into finding new industrial uses and expanded markets for wheat?

MR. SCARTH: Am I to take it that there is to be a brief proving all these statements?

MR. FILLMORE: This is one way of taking a little of the sting out of some other remarks that have been made. I have a list of fifteen services that have been performed by the line elevator companies.

MR. E.T. PARKER: We will take them as read.

THE CHAIRMAN: Are these things to be measured numerically, Mr. Fillmore, one set against the other?

MR. FILLMORE: No, Mr. Chairman. We want to get credit for some of the contributions the line elevator companies have made.

BY MR. FILLMORE:

Q. Do you know whether the line elevator companies established an Agricultural Department of the North-West Line Elevators Association under the direction of Dr. K. W. Neatby, one of the outstanding field crop authorities of Western Canada? A. I will endorse the last part of the statement one hundred per cent.

Q. You are acquainted with Dr. Neatby? A. Very well.

BY THE CHAIRMAN:

Q. You do not mind that going into the record? A. No, I certainly do not.

BY MR. FILLMORE:

Q. Now, dealing with the question of membership, I would like to get before the Commission the method in which a man can become a member. I have a copy of what purports

to be an advertisement that was put in certain of the country newspapers in 1942. I have not got any of the papers here. I will read part of the advertisement and you can tell me whether it correctly indicates the conditions of membership.

MR. SCARTH: Mr. Parker has not seen that. I do not know whether he will recognize it.

MR. FILLMORE: He can say whether he thinks it is correct.

BY MR. FILLMORE:

Q. The advertisement, of which I have a copy, said in part this:

"To become a member of a local association, two conditions must be fulfilled:

(1) Deliver grain to pool elevator, which may be all or part of the marketable grain the farmer has to sell.

(2) Sign an application for membership, which may be obtained from any pool elevator agent. Cost of membership is \$1, which need not be paid for in cash, but will be collected whenever the first patronage dividend is distributed.

In our new set-up, no member is required to sign a contract to deliver grain, nor does he undertake any financial obligations."

Is that correct? A. That is correct.

Q. Has your membership increased rapidly in the last four or five years, or since 1939? A. Well, it depends on what you mean by "rapidly".

Q. Has the increase since 1939 been more rapid than in previous years? A. I would say it has been more rapid since 1939 than it had been in the prior five-year period; I think that is correct.

Q. You have been paying patronage dividends during the past five years? A. Yes. We were paying patronage dividends before that too.

Q. You are not in the grain export business? A. No.

Q. You have mentioned the meeting before the Board of Grain Commissioners in July, 1944? A. Yes.

Q. You called our attention to that. Were you represented there by a Mr. Steele? A. I was there myself, so was Mr. Steele.

Q. Did Mr. Steele, your General Manager, make a submission? A. Yes.

Q. Was it to this effect:

"We hereby wish to inform your Board that the present tariff rates under which we are now operating country and terminal elevators are in our opinion satisfactory rates for the handling of the 1944-45 crop.

It should be understood that we consider the storage rates of 1/60 in the country and 1/50 in the terminal elevators to be the minimum. In our opinion the maximum storage tariff should be 1/50 of 1c per bushel per day in country and terminal elevators.

This past year's operating results, stocks at present in store on farms and in public storage, and the crop prospects to-day, are factors which we think justify a tariff rate as suggested above."

Does that summarize your position? A. I think so.

Q. You did not ask for any change? A. That is correct.

Q. Did the line elevator companies object to storage rates only and not to any other handling charges? A. That is right.

Q. A few days later was there a meeting with the Canadian Wheat Board, or did you sign a contract with them a few days later? A. There was a meeting subsequently. I think it was more than a few days after; I have forgotten how long after it was, I think it was a few weeks later.

Q. In any event, there was a subsequent meeting at which the contract was signed by your company? A. Not at the time of the meeting, but signed afterwards.

Q. And in September a meeting was held in Regina? A. Yes.

Q. A meeting of the three pools. Now, whose idea was it? Who first thought of holding that meeting? A. The executive heads of the three pools.

Q. Who is that? A. Mr. Wesson, myself and Mr. Plumer.

Q. Did you have a meeting prior to your gathering in Regina? A. Do you mean the executive of the whole group?

Q. Yes, anybody. A. The three of us did.

Q. You had a meeting where? A. I don't recall whether it was in Winnipeg or Regina.

Q. You had a meeting previous to the meeting in Regina? A. Yes.

Q. Who called the meeting of the three of you, or did you just happen to meet there? A. I do not recall the circumstances of that meeting. It was not called for that particular purpose, I know that. We meet rather regularly, as a matter of fact.

Q. At one of those regular or accidental meetings, who got the idea of lowering the handling charges? A. The three of us.

Q. Conceived at once by the three of you? A. Now, how do those ideas come about?

Q. To whom are we going to give the credit for this benefit? A. Well, you can make me the goat, if you wish, and go on from there?

Q. What? A. You can charge it up to me, if you wish, and go on from there.

Q. I would like to give you credit for it, Mr. Parker. A. Well, I cannot tell you, Mr. Fillmore. That arises out of discussion. You do not go in with any preconceived ideas.

Q. There was not any discussion to the effect that you might be able to increase your patronage dividends? You could have paid more money to your members by increasing your patronage dividends, could you not? A. Yes, we could have, but that was terrifically annoying to your clients, Mr. Fillmore.

Q. It was annoying to them? A. Yes, it seemed so to me.

Q. Do you think it was more annoying than going back on your agreement and making it retroactive to the 1st of August? A. Now, listen,—

MR. SCARTH: That is not a fair question.

THE WITNESS: Do not get the impression that we are going to cartelise the grain trade, because we are not.

MR. FILLMORE: I am not going to enter into any argument on that point at all.

That is all I have to ask you.

THE CHAIRMAN: Mr. Scarth?

BY MR. SCARTH:

Q. Mr. Parker, I think hedging was mentioned this morning? A. Yes.

Q. I was just wondering if you would make a short statement to the Commission so that they would understand what is

meant by hedging. Maybe all the Commissioners are fully informed about it, but I think a statement on the record might clarify the thing. It has been suggested several times that by hedging your grain you are thereby adopting the principle that is followed by line companies, or doing business along the same lines. Would you make a statement on that, please? A. In layman's language—and I cannot talk the grain trade language, because I do not know it well enough.

THE CHAIRMAN: We certainly do not.

THE WITNESS: Well, under the old pooling system we had an initial payment, which was presumed to be substantially below what might be the price of grain. Now, it was not in 1929. When we established it at \$1 it was. Working on that principle the banks accepted your warehouse-receipts as collateral and you got your money. On the open market system they require you to get some kind of price insurance, and in simple language that is what the hedging system is. You sell the paper. You provide yourself with a price insurance; you establish a price by placing the hedge which ensures that you do not get less, and eventually you sell your cash grain and take back your hedge. It is a matter of the mechanics of getting yourself price insurance.

BY THE CHAIRMAN:

Q. You protect your long position by going short, that is all. A. Yes, if you wish to put it that way. You are long in cash and short on the hedge, if you wish to use that terminology.

BY MR. VAUGHAN:

Q. There are actual purchasers at those future prices? A. Yes. But it is not often that a country elevator delivers on a future contract.

Q. What I am getting at is, it is not just a fictitious transaction? A. No, there is nothing fictitious about it. As farmers we look at it as an insurance policy. I cannot make the language simpler than that.

Q. I think it is a point that some people do not understand, that there are actual purchasers of the wheat for those future dates. A. Oh, yes, sure there are.

BY MR. SCARTH:

Q. There is one more point that I think should be cleared up. This morning Mr. Fillmore quoted you a figure of some-

thing over \$3,000,000 that was owing by the old pool to members who had contributed the money before the pool went into bankruptcy. I do not know whether the commission fully understand the situation. The suggestion was that those members had lost the entire amount of \$3,000,000 by virtue of what happened. A. I am sorry, sir, if I left that impression, because that is not the truth at all. The elevator deductions of \$3,056,000 taken in Manitoba, that Mr. Fillmore referred to, were invested, and were lost by virtue of the over-payment, but by virtue of the same over-payment to the individual grower he got more than his grain actually sold for.

BY THE CHAIRMAN:

Q. The grower had the money? A. Yes. So to the extent that it was the same man who delivered, his over-payment offset his elevator deduction that he had prior thereto contributed. There is an inequity between some individuals, but generally speaking I would say that perhaps the majority, a fair majority, actually got their deductions back by virtue of the overpayment. Now, to continue the story just a little further: those growers who had not delivered in the year and had no overpayment, still had a credit in respect to their elevator deduction certificates. If they have continued to use the Manitoba Pool Elevators since that time they have taken out in patronage dividends by virtue of this continued operation sums substantially greater than the original elevator deduction certificates. There is still some inequity; there is still an odd individual who has not been able to make delivery.

BY MR. ARNASON:

Q. Mr. Parker, you stated a while ago that you were prepared to pay out an amount held in the revolving reserve fund upon the death of a member? A. I said I was. I propose to recommend that to the annual delegates next fall, definitely. I have not the authority at the moment, but now that we have gotten some other things cleared away we propose to offer that plan, so that immediately a death occurs and they give us the necessary papers the money would be paid out. We think that should be done definitely.

Q. You are speaking of future policy now. I wonder whether you would care to express an opinion as to whether that principle could be extended a little, for instance in the case of a member who wished to move from the province or was

retiring from farming. Would you consider it feasible to make some provision whereby such member could withdraw his portion of the reserve then, or have some definite time in the future set as to when those reserves could be made payable?

A. I think that has possibilities, Mr. Arnason. We are trying to think our way along this road. We are not static. If a man is moving out of the province or out of the country, I think there is a very good moral obligation, and if it is not going to embarrass you financially you should give him his money. Maybe when we get the other matter cleared up we can proceed with this one next.

Q. May I question you a little further? Would you consider it feasible as part of a general policy to set some limit as to the length of time during which these reserves should be retained by the local associations? A. I think that is utterly impracticable.

Q. What factors would lead you to that conclusion? A. Well, you recall quite well the seven years of crop failures in southern Saskatchewan, which came over into southern Manitoba, where the associations were in the red for three of four successive years. You would be in a most embarrassing position if you were required by law to kick out all your liquid cash or working capital during a depressed period. You would wreck the whole thing. It would be necessary to devise some other machinery if that policy were insisted on.

Q. In the event of a lean year, if the retirement date of the reserves were fixed you would have to depend on the ability of your organization to borrow, in order to retire those reserves, and that might be difficult? A. Well, it would not be difficult at the moment, but when you got into that position it probably would be difficult. There is plenty of money today, you can borrow anything you want, but when you really want money you cannot get it. There is no use in cutting your throat to satisfy some theoretical idea. Our people have to realize that if they want this thing they have to take care of it themselves. I admit there is something in the thought that prompts your question, but I cannot see how it could be done at the moment, Mr. Arnason.

Q. The alternative would be to pay out your patronage dividends, and then borrow? A. We could pay out the patronage dividends today and go and borrow it all back from the farmers, but under the conditions you are thinking of, Mr. Arnason, you could not borrow from anyone.

BY MR. T. E. PARKER:

Q. I hope to be just a few minutes, Mr. Parker. I shall attempt either to simplify this matter a little or else to make it a little more complicated so that we shall know nothing about it. To begin with, I assume that you read carefully the Order in Council constituting this Commission, before you prepared your brief? A. Yes.

Q. And that you realize that what is before this Commission is primarily a question of taxation? A. Yes.

Q. For the moment I am not so much concerned with the ancient history of the Manitoba grain trade as I am with the present set-up and methods of operation. Let us think of it from that angle for a moment. Am I right in saying that its general set-up, its financial structure, its methods of doing business from day to day and from year to year has been practically uniform during the last three or four or five years, excepting in so far as it has been affected by the Wheat Board? Would that be a fair way of stating it? A. Yes, I think that is correct.

Q. At the present time there is in existence the Manitoba Pool Elevators that we have been talking about? A. Yes.

Q. Which was incorporated in 1925? A. Yes.

Q. As an ordinary joint stock company, under the provisions of a special Act of the provincial Legislature—I will leave out the word “ordinary”, but as a joint stock company? A. Well, we conceive it to be a co-operative.

Q. I realize that. And it had at that time authorized capital? A. That is right.

Q. -Share capital? A. Yes.

Q. It issued 10,000 shares, and they were \$1 shares, were they not? A. Yes.

Q. That is all that was ever issued? A. That is all.

Q. The person or corporation that received those shares was the Old Manitoba Pool? A. Right.

Q. Which in itself was a corporate body? A. Correct.

Q. And the Manitoba Pool paid into the treasury of Manitoba Elevators that sum of \$10,000 in cash? A. Yes.

Q. For those shares? A. Yes.

Q. And Manitoba Pool Elevators still has that cash, somewhere? And by a Statute later on the shares were wiped out, were abolished, and this \$10,000 was declared as a membership fund in the hands of the Manitoba Pool Elevators? A. Yes.

Q. So by statute that became the money of Manitoba Pool Elevators, did it not? A. I guess that is right.

Q. And it has remained there ever since in that capacity, as far as you are aware? A. As far as I am aware. I do not know whether that is legally correct.

Q. At that time Manitoba Pool was the only member of Pool Elevators, was it, apart from one or two who may have had a qualifying share as directors? A. Yes, I think that is right.

Q. And that is the only member that Manitoba Pool Elevators ever had, excepting these associations which became members later on? A. That is correct.

Q. So the membership of Manitoba Pool Elevators is today and has for some years been the associations, and the associations only? A. That is correct.

Q. Because Manitoba Pool has long since gone into bankruptcy and ceased to exist? A. That is correct.

Q. We have got that much clear. Will you tell me what the associations do in order to become members of Manitoba Pool Elevators? What makes them members? A. Well, it is merely a federation. Their membership involves simply the purchase agreement and operating agreement between the Pool Elevator Company and the local association. We have filed both of those with you.

Q. Let us get that straight. Each association that becomes a member of the Pool Elevators signs two agreements? A. Yes.

Q. The two that you have spoken of here today? A. Yes. The first is a purchase agreement.

Q. A purchase of what? A. Purchase of the local facility, the country elevator, which they buy.

Q. They agree to purchase from Manitoba Pool Elevators their local elevator? A. Yes, on certain terms.

Q. Which are set out in that agreement? A. Yes. And the other agreement is an operating agreement.

Q. The agreement under which the association purchases from Manitoba Pool Elevators is turned back for Manitoba Pool Elevators to manage? A. They designate Manitoba Pool Elevators as manager.

Q. It is an agreement under which the Pool becomes the manager of the elevator which the Pool has just sold to the association, is that correct? A. That is correct.

Q. So to find out the method of operation as between the central company, the Manitoba Pool Elevators, and the association, we look to those two agreements? A. Yes.

Q. Assuming that each party lives up to the terms of those agreements? A. Yes.

Q. And there we shall find in detail the manner in which the associations, on the one hand, and the Manitoba Pool Elevators, on the other, should be carrying on their business? Is that a fair way of putting it? A. That is correct.

Q. To what extent, if any, has Manitoba Pool Elevators carried on business outside or in addition to or on terms different from those set forth in those two agreements? A. I do not know hardly how to answer that question, Mr. Parker. I do not think we have carried on any outside business except the two or three small things that Mr. Fillmore referred to.

Q. If you say you have carried on no business, no operations, other than as set forth in those agreements, that is one answer. But if you have carried on business other than that, tell us what it is? A. No, there is nothing that I know of, outside of what it is authorized to do under that operating agreement.

Q. Under the terms of that agreement—I presume they have been enumerated before here today, so we need not go over them—the Manitoba Pool Elevators manage these individual association businesses? A. The manager of the Pool Elevators Company is designated to be and accepted as the manager of each local.

Q. In actual fact, from day to day and month to month and year to year Manitoba Pool Elevators are what we might call professional expert managers of the local associations? A. Yes, the technical business; but the local board has got a good deal of control.

Q. I know, but that is practically your business, manager of this series of local associations? A. Yes.

Q. You have no business of your own other than that? A. No—pardon me, except that seed plant.

Q. We will come to that in a moment. I am speaking now of the grain proper. A. Right, no business outside of that.

Q. As manager of all these associations, does Manitoba Pool Elevators get paid for its services? A. No.

Q. It does not? A. No.

Q. Not a cent? It works for nothing? It gives all its managerial services for nothing? A. No, they agree to pay—

Q. Just listen to the question, please. You carry on as manager of all these associations, you keep the books and do the managerial work. I am asking you simply if Manitoba Pool Elevators renders that managerial service for nothing, or does it receive remuneration for it? A. It receives exactly the amount of remuneration it expends for the service, as provided in the agreement, which enumerates the things it shall do and who shall pay for them.

Q. It renders its services at cost to those individual associations? A. That is right.

Q. That is provided for in the agreement? A. Yes.

Q. And you say those provisions in the agreements are carried out to the letter? A. Absolutely.

Q. Apart from rendering this managerial service to the associations, what other type of business is Manitoba Pool Elevators engaged in? You started to say something about seed. A. I mean legumes and coarse seeds. We just accept the raw product and put it through the cleaners and grade it up to what is required under the Plant Products Division and sell it for them.

Q. Does the company get paid for what it does? A. Their out-of-pocket expenses.

Q. What does it charge its losses up to, then? A. We charged the losses for the first two years up to the contingency reserve.

Q. Of the grain trade? A. Yes; and the members were almost identically the same, grain and seed.

Q. So up to date you have made no profits, and what losses you have made you have charged up to the associations? A. Yes.

Q. In the course of your management and down through the years Manitoba Pool Elevators has come into possession of and is now in possession of—I am not talking about ownership; I am using the word “possession” purposely—of large sums of money? A. Yes.

Q. That has been gone over here today, and we need not go over it again. We know from whence they came. They are in Manitoba Pool Elevators' hands or custody or possession? A. Yes.

Q. You have told us today more than once and have stated in your brief that they are in the possession or custody of Manitoba Pool Elevators as trustees? A. Yes, I have said that.

Q. I want to know on what you base that statement that those funds are in your hands as trustees. Perhaps I can help you answer it. Is it based on any other grounds or facts than that it is stated in that four-party agreement? Is that what you base that statement on? A. I think that is what we base it on.

Q. Entirely? A. No, not just the four-party agreement entirely. You would have to go back to the original agreement.

Q. I am trying to find out if it is correct to say that the funds that you are holding or controlling or handling are in your hands as trustees. You say they are, but others may dispute that statement, and in order to determine who is right we would like to know what you base your statement on. A. I say it is based on first the original operating agreement.

Q. What do you mean by that? A. In 1925, when it was incorporated, the original. It has been modified by virtue of the four-party agreement. That has been modified again slightly by virtue of the 1933 supplementary and the amendment in 1936. It is those written contracts or agreements, if we may call them that, plus custom or what we have actually done.

Q. You say it is on those agreements, plus what you have done as described here today, that you base your statement that you are trustees in control of those funds? A. Yes.

Q. And do I understand it is on that ground that you have stated that whether you make earnings or profits or surpluses, Manitoba Pool Elevators should not be taxed? Do you make that statement because of your position as trustee, because any earnings you make are held in trust for somebody else? A. Yes, generally speaking.

Q. Is that your position? A. That is my position.

Q. Let us come to the individual associations. You have attached to your brief a copy of the by-laws of one of the associations, have you not? A. Yes.

Q. You say it is typical. I suppose they are pretty standard, are they? A. They are all standard now. I think that is typical of the group now.

BY THE CHAIRMAN:

Q. Did you have a brief from the Sanford Association at the Winnipeg sitting? A. No, sir, but from Sperling; because

I lived at Sanford and was partly responsible for the original organization proceedings at that point.

BY MR. E. T. PARKER:

Q. These associations mentioned in your brief are all corporate bodies? A. They are.

Q. Incorporated under the Manitoba Co-operative Associations Act? A. Yes.

Q. I think you have made it pretty clear, or Mr. Fillmore has, how the individual grower becomes a member of one of these associations. It is by signing the two papers that you mentioned a moment ago—an application form and what was the other thing? A. Only the application form, that is all he is required to sign.

Q. And he has to deliver his grain? A. He must deliver his grain and sign the application form, which must be formally accepted by the local board.

Q. And he can either pay \$1 down or have it deducted from his first dividend? A. Yes; they do it both ways.

Q. Are those associations or any of them doing business, that is handling grain, for others than persons who are members? A. Yes.

Q. And have been for some years? A. Yes.

Q. That is a common practice with them all? A. Well, they have all got a public license.

Q. I understand that. I do not care why they are doing it; I am merely asking you whether as a matter of fact they do it. A. They do.

Q. And a very large volume of what they do is non-member business? A. No.

Q. Are the accounts in the association's books carefully kept, so that you are able to ascertain the amount of business done by members and non-members? A. Yes, we can tell you that at any time.

Q. How does it run, roughly? A. I have recited in the brief that it is 97 point something per cent, and I said verbally that as today it is 99 per cent plus, that is member business. That is the over-all picture.

Q. But are there some individual cases where to your knowledge there would be a variation? A. There is a variation, but I can say to you that there is none of them less than 88 or 89 per cent.

Q. That is, 88 percent of the total? A. No, but of the requirement under the Act—pardon me, you are getting me balled up. It is 88 percent of the total.

Q. Sometimes we are not certain whether it is 20 per cent of the total business or 20 percent of the member business. A. I think one or two are around 87 or 88 per cent, and the rest all over 90. There are obviously only three or four in the lower position.

Q. Have you a copy of the application that new members sign? A. I have not, no.

MR. SCARTH: I will file one with the commission.

BY MR. E. T. PARKER:

Q. Perhaps you can tell us roughly what the application says? I know it is not quite proper to ask you to give evidence as to a written document, but perhaps in the circumstances you might be allowed to tell us the effect of the application. A. It is pretty simple. It says something like this: "I hereby apply for membership in the blank association and agree to subscribe to the by-laws, rules and regulations." It is very simple.

Q. There is no obligation on the applicant's part to supply his wheat? A. No.

Q. And in the acceptance of it nothing is said to place any obligation on the association's part towards him, other than as we find it in the by-laws and charter of the association? A. That is correct.

Q. Now we come to the by-laws of the association, as to your association's obligation to handle those surpluses. I would refer you to by-law No. 39, on page 11, which says that any surplus arising from the business of the association shall be distributed wholly or in part among members in proportion to the volume of business done by each with or through the association, and may be paid immediately in cash or may be credited to the member's account on the books of the association and retained and used by the association without interest for such time as the directors in their absolute discretion may decide to be advisable and in the interests of the association, and may thereafter be paid to the members as the directors by resolution authorize. Can you point to me anything in the association's charter, in their by-laws, which enlarges that provision, which will indicate in any way that the member has a right to that surplus other than by the grace of the directors, at such time as they may see fit to make it available to him? A. No, as far as I know there is not.

Q. You would probably know if there was? A. There may be, but if so I have forgotten it. I have just forgotten whether the new by-laws put any modification on that or not. I remember definitely why that clause was worded in that way.

Q. I do not want a misleading or misunderstood statement. If there is any possibility of that clause having been modified to change those obligations, I want to know. A. I think that is correct as it is.

MR. SCARTH: I think you asked him a double-barrelled question.

MR. E. T. PARKER. I did not intend to do that.

MR. SCARTH: I think you asked him first whether the member had any right to the surplus, and then whether the directors could decide the time at which the surplus would be paid out. I do not know whether the witness considered it in both ways.

BY MR. E. T. PARKER:

Q. What I wanted to find out was if there was any other by-law anywhere which would cut down or enlarge upon what is stated there. A. There is not in our by-laws, Mr. Parker, but have you read the supplementary and amended supplementary of 1933 and 1936?

Q. Supplementary what? A. Agreements. They are attached to the brief.

MR. SCARTH: They are quoted in the brief.

BY MR. E. T. PARKER:

Q. I am a little confused. How do those agreements affect the member who may have signed his application last week? A. Those agreements have been properly signed and sealed on behalf of the company and the association, and they are binding.

Q. Upon a new member? A. Absolutely. At least, we always interpreted it that way. Legally, I do not know.

Q. I think you stated that the only way a person could become a member was to sign an application? A. And to abide by the rules, regulations and by-laws of the association. And in the rules I interpret that we include the supplementary agreements. But those agreements are quite legal in character and I may be wrong.

Q. You say that a member joining your association now, by signing that application is making himself bound by the by-laws of the association and also by those agreements?

A. Well, that is our interpretation. We think he is. That interpretation is backed up by practice.

Q. That is what I was coming to. The agreements will have to speak for themselves. We have heard quite a lot about practice from witnesses who apparently attempt to argue that members have certain rights to get reserves because of the practice of the directors never to refuse them when they are asked for. Perhaps I should not put this to you, as it may be a legal question, but you do not consider that as conferring a right on the member, do you? A. Maybe not in the legal sense.

Q. That is the situation, anyway. A. That is the situation.

Q. Near the end of your brief, on pages 16 and 17, you make an argument which I do not quite appreciate. My learned friend and you had some discussion about these benefits that the company has conferred on the community in general. As to the benefits which you suggest have been conferred by your company on the community by reason of the items that you have specified there—things which Mr. Fillmore suggested his companies were doing equally well—you will agree that those things have absolutely nothing to do with the question before this Commission? A. Those things that were specified, no.

Q. Then what is your point in putting them in this brief? Just a little padding, I suppose. A. No, it was not, Mr. Parker. I had a sincere reason for putting some of those things in that brief. We tried to show that what the company is seeking to do is to build up a citizenship within the country.

Q. I understand. I do not think anybody questions that you are doing excellent work; nobody has ever questioned that before this Commission. But I want to know whether there is the suggestion—and if so whether there is any substantial body of public opinion agreeing with it—that because of these very fine things the associations do in the community, by reason of the money they spend in doing these things, and so on, they should receive some consideration in the matter of income tax. Do you agree with that? A. No, I do not agree with that.

Q. Therefore, it has nothing to do with the question of taxation? A. No.

Q. Likewise when you make an argument that the farmer has had a hard time because of climatic conditions, that has nothing whatever to do with the question of taxation? A. I think that definitely has a moral influence. I think that this Commission is studying this problem not from its legal aspects, not from any discriminatory aspect — of course, all income taxes are discriminatory in character, that is obvious—but the Commission is studying it from the point of view of the social implications of the business being conducted and the ultimate impact of the tax when it is imposed. There is nothing legal in it.

Q. Can that question be affected by climatic conditions? A. To this extent, that the farmers are very vitally affected by climatic conditions, and they have attempted through these organizations of their own to lessen their costs of production. We have been asked and encouraged to do things of this kind. Now, when we do them and we throw out those huge sums, there is a suggestion that they should be taxed away. Well, why go to the bother of trying to benefit your position if someone is taxing it away? Where would we get the God-given right to set ourselves up as a taxing agency for the farmer or anybody else? Why should anyone determine that one cent a bushel or three cents or five cents a bushel extra should be charged to the farmer in order that we might try to make ourselves look patriotic by paying that over as income tax? That is the way we look at it.

BY THE CHAIRMAN:

Q. You will admit, Mr. Parker, that there are quite a few legal tripwires that have to be looked after? A. Oh, yes, I am not giving complete approval to everything in this country that calls itself co-operative.

BY MR. E. T. PARKER:

Q. I want to revert to those handling charges. It is pretty clear that they were reduced last year from three cents to one cent? A. Yes.

Q. I think you told us that three cents or even five cents is less than cost, actually? A. If that were the only revenue it would be less than cost.

Q. In other words, if the handling were operated separately as a department and stood on its own feet, it would take more than that to make it pay? That is what you mean by that? A. That is what I mean.

Q. I take it, then, that the storage charges are carrying the undercharge on the handling? A. I cannot quite answer that.

Q. Do you want to say anything about it? A. Yes. I do not think anyone, even those who have been in the elevator business a very long time, people who know far more about it than I do, can determine just what the relationship of the storage charge to the handling charge should be. The presidents of two of the largest line companies who met before the Board of Grain Commissioners made out a very good case as to why the storage charge should be 1/30c per bushel per day this year, and I presume that they thought it should be that much, in view of the risks that they were taking. We thought it should be 1/60c. Now, I cannot reconcile the two figures. The men I am referring to were old men in the grain business before I knew what grain was. I do not think you can say that one operation is carrying the other. I have pointed out that we have attempted to lower both charges.

Q. The two combined gives you a surplus, do they not?

A. Yes. But they themselves are not all the revenues that accrue from the handling of grain.

Q. Do you say that the storage charges and the handling charges if put together in a compartment would be less than the cost of the two operations combined? In other words, is it not true, as I suggest, that the storage charges do carry the handling charges, or at least are high enough to do that? A. We could have washed out the handling charge entirely this year and still been all right.

Q. That is scarcely an answer to my question. A. I cannot say.

Q. If you cannot say, we will let it go. A. We have attempted to keep a balance.

Q. I was wondering, when you found your revenues were up, what induced you to lower voluntarily the handling charges instead of the storage charges. Why did you not lower the storage charges instead of the handling charges, or both? What was the deciding factor there? A. I do not know that there was any deciding factor. We had asked for 1/60c for the storage charge. It was obvious that our competitors would not agree and, as I explained, we compromised on 1/55c. We just came to the conclusion that it was no use in trying to come to an agreement.

Q. But you said your handling charges were reduced 2

cents? A. Yes. That was of more immediate benefit to the farmer.

Q. As a matter of fact, did you ever consider the storage charge at all from the point of view of whether it should be reduced? A. Yes, we considered lowering them both.

Q. You spoke about a mortgage which is held by the members. I am mentioning this merely for clarification. I do not quite get what you mean by that. A. You might not call it a mortgage, in legal terminology, held by the members.

Q. The mortgage is on the terminal elevator? A. Yes.

Q. That terminal elevator was bought by somebody. Who bought it? A. The Manitoba Pool Elevators bought it.

Q. The Manitoba Pool Elevators bought it, and not having the money to pay for it Manitoba Pool Elevators gave a mortgage? A. Yes.

Q. Gave the vendor a mortgage? A. Yes.

Q. And that vendor still holds that mortgage, there is still money coming to him? A. No, he has been paid off entirely.

Q. Did he assign the mortgage to anybody when it was paid off? A. No.

Q. Was it released? A. I do not know whether you call it released or discharged.

Q. What is its status? A. I have forgotten what the total amount was, but it was roughly half a million dollars.

Q. The amount does not matter. A. We paid him in full and got a receipt for the money and destroyed it, but we did not do that until we went to the people, the farmers themselves, and asked them if they would care to lend money for that specific purpose.

Q. To put you in funds so that you could pay off the mortgage? A. Yes, to give us their funds to pay off the mortgage, and they would be repaid in five equal annual instalments.

Q. In other words, you borrowed the money from your members and then you went and paid off the mortgage? A. Yes.

Q. Manitoba Pool Elevators borrowed money from its members to the extent required to pay off the mortgage? A. Yes.

Q. And that is still owing to its members? A. Yes.

Q. Is it bearing interest? A. Yes, 5 per cent.

Q. You are paying that every year? A. Yes.

Q. And reducing it? A. Yes; we have made one payment off it.

Q. You are paying the interest and reducing it out of surplus earnings? A. No.

Q. Where are you getting the money to pay on the mortgage? A. Depreciation taken on the elevator, on the terminal.

Q. Who owns the terminal, Manitoba Pool Elevators?
A. That again is a legal question.

Q. Who has the title? A. The title rests in our office. It is in the name of Pool Elevators, and Pool Elevators is owned by these associations.

MR. E. T. PARKER: I cannot mix it up any more.

BY MR. ELLIOTT:

Q. Were those loans obtained from the members on an individual basis? I am speaking now of the loans obtained to pay off the mortgage. Could any member lend any amount that he wished, or was the money obtained from the members in some other way? A. It was obtained in that way and in another way, Mr. Elliott. Some of the associations voluntarily said, "We will take a certain proportion of the cash that is immediately available to us and apply it against the loan." The allocation was made and every member in that association was notified of the amount of his loan and the rate it was bearing and the date it would be repaid. In some other instances we had individual amounts sent in to the office by cheque to be devoted to that purpose.

Q. Is the loan payable as of some one date? A. Yes; it is payable on the last day of the calendar year, as I recall it.

Q. That is the interest? A. The interest started on January 1st, 1944. The first payment was made some time around Christmas, or at any rate some time in December, 1944.

Q. The contract bears a definite terminating date?
A. Yes.

Q. There is a sentence on page 17 of your brief that I wanted to ask you about. It is really a submission rather than a statement of fact, and if you can elaborate on it I would be glad to have an explanation. The sentence is this: "We submit that any income tax and excess profits tax collected from

any elevator company is actually paid by the farmers who deliver the grain to that elevator." What do you mean by "is actually paid"? It is not literally true, and I am wondering what you mean. A. Well, I suppose it has no basis in a legal argument, Mr. Elliott.

Q. I am not a lawyer. A. As a farmer, as I look at it, if we paid an ordinary elevator company its operating expenses and a fair return on capital to take care of its depreciation we would be satisfied, but we have been paying for these elevators at normal and accelerated depreciation for the last forty-odd years and we never owned them. Eventually we have resold them to another group of shareholders and started to pay for them all over again. Now, our point is that we keep on paying, generation after generation, for elevators that are forty and fifty years old and must have been written off once or twice or three times, and it looks to us as if we are continuing to pay not only the operating expenses and a return on capital the first time, but we are providing all the profits over and above that.

Q. But this sentence says that the farmers pay the income tax and the excess profits tax collected from any elevator company? A. Because all their profits are made on the grain, and as a secondary industry I do not think they are entitled to anything except a reasonable return on the original invested capital.

Q. But a charge is made by an elevator that is not in that year making any profits or paying any taxes, much the same as the charge made by an elevator that is making profits and paying taxes? A. Yes.

Q. In the one case, evidently, from the charges made to the farmer no money goes to pay income and excess profits taxes. But in the case of the elevator that is making profits, the money must come from there to pay the taxes. A. It comes out of the grain, in our opinion.

Q. I am still not clear as to the exact meaning you intend us to take from that statement with regard to income tax and excess profits tax. A. I do not think I can make it any plainer. I will admit it has got no basis in law — I do not know much about law, but I admit that quite frankly. In my opinion the grain is the primary thing. An elevator company is a service organization, and any money that comes to it over and above its capital and operating expenses is profit that has accrued to it out of the value of the grain, as we see it.

Q. Your point was not that if the income and excess profits taxes were increased the farmers would get less for their grain? A. No. The farmer's price had nothing to do with it.

BY MR. VAUGHAN:

Q. As to the loans that you referred to, were they made entirely voluntarily by the members, or was there some resolution by an association stating that its members should do so and so? A. A part of it was voluntary, came from some individuals, but the major proportion came out of the cash patronage dividend immediately available for distribution. At the local annual shareholders' meeting the members themselves took a look at it and said, "We will reinvest \$500" or \$1,000, as the case may be. They named the amount definitely.

Q. Each member had to subscribe some, did he? A. Each member of that association, but not of all the associations. Some of them turned it down and took all their money out. If there was a minority which did not want to go into this, there was no compulsion in respect to it. When an association went into it, it was not a majority vote, but I should say it was a unanimous vote.

Q. I wondered if there was a little bit of compulsion? A. No, I say frankly that I do not think so, because the smallest minority would discourage the majority from doing that. It was a matter of voluntary agreement.

BY MR. E. T. PARKER:

Q. In whose name are the sales of the grain made? A. In the name of the trustee.

Q. As trustee? A. No.

Q. There is nothing on the face of it to indicate that? A. No, not a thing.

Q. Perhaps this is a question of law. Who is liable —

MR. SCARTH. I think my friend should be careful not to go too far.

MR. E. T. PARKER: All right. That is all, thank you.

THE CHAIRMAN: Mr. Steer, have you any questions?

MR. STEER: No questions, sir.

THE CHAIRMAN: That completes this brief. It is agreed that we shall adjourn until Monday morning at 10 o'clock.

At 4.50 p.m. the Commission adjourned until Monday, April 30, at 10 a.m.

